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## BEFORE THE ARIZONA CORPORATION CO

## COMMISSIONERS

Arizona Corporation Commission

DOCKETED

KRISTIN K. MAYES - Chairman

GARY PIERCE

PAUL NEWMAN

SANDRA D. KENNEDY

BOB STUMP

JAN 6 2011

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY, AN  
ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON FOR  
UTILITY SERVICE BY ITS ANTHEM WATER  
DISTRICT AND ITS SUN CITY WATER  
DISTRICT, AND POSSIBLE RATE  
CONSOLIDATION FOR ALL OF ARIZONA-  
AMERICAN WATER COMPANY'S DISTRICTS.

DOCKET NO. W-01303A-09-0343

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ARIZONA-AMERICAN WATER COMPANY, AN  
ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON FOR  
UTILITY SERVICE BY ITS ANTHEM/AGUA  
FRIA WASTEWATER DISTRICT, ITS SUN CITY  
WASTEWATER DISTRICT AND ITS SUN CITY  
WEST WASTEWATER DISTRICT, AND  
POSSIBLE RATE CONSOLIDATION FOR ALL  
OF ARIZONA-AMERICAN WATER  
COMPANY'S DISTRICTS.

DOCKET NO. SW-01303A-09-0343

DECISION NO. 72047OPINION AND ORDER

## PUBLIC COMMENTS:

April 7, 2010, at Anthem, Arizona

May 17, 2010, at Sun City, Arizona

DATE OF PRE-HEARING  
CONFERENCE:

April 16, 2010

DATES OF HEARING - PHASE I,  
REVENUE REQUIREMENT:

April 19, 20, 21, 22, 23, and 29, 2010

DATES OF HEARING - PHASE II,  
RATE DESIGN AND  
RATE CONSOLIDATION ISSUES:

May 18, 19, 20, 21, 25, 28, June 2, and 3, 2010

## PLACE OF HEARING:

Phoenix, Arizona

## ADMINISTRATIVE LAW JUDGE:

Teena Wolfe

## IN ATTENDANCE:

Kristen K. Mayes, Chairman  
 Gary Pierce, Commissioner  
 Bob Stump, Commissioner  
 Sandra D. Kennedy, Commissioner  
 Paul Newman, Commissioner

## PHASE I APPEARANCES:

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 LEWIS AND ROCA, LLP, on behalf of Applicant;

Mr. Greg Patterson, on behalf of Water Utility  
 Association of Arizona;

Ms. Judith M. Dworkin, SACKS TIERNEY PA, and  
 Mr. Lawrence V. Robertson, Jr., on behalf of Anthem  
 Community Council;

Mr. Larry Woods, President, on behalf of Property  
 Owners and Residents Association;

Mr. Norman D. James and Mr. Jay L. Shapiro,  
 FENNEMORE CRAIG, P.C., on behalf of DMB White  
 Tank, LLP;

Mr. W.R. Hansen, *in propria persona*;

Mr. Daniel Pozelsky, Chief Counsel, on behalf of  
 Residential Utility Consumer Office;

Ms. Maureen Scott, Senior Staff Counsel, Ms. Robin  
 Mitchell, and Mr. Wesley Van Cleve, Staff Attorneys,  
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 the Arizona Corporation Commission.

## PHASE II APPEARANCES:

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 SACKS TIERNEY PA, and Mr. Lawrence V.  
 Robertson, Jr., on behalf of Anthem Community  
 Council;

Mr. Robert J. Metli, SNELL & WILMER, LLP, on  
 behalf of The Camelback Inn, Sanctuary on Camelback  
 Mountain, the Intercontinental Montelucia Resort and  
 Spa, and the Scottsdale Cottonwoods Resort and Suites;

Mr. Andrew M. Miller, Town Attorney, on behalf of  
 the Town of Paradise Valley;

Mr. Bradley J. Herrema, BROWNSTEIN HYATT  
 FARBER SCHRECK, LLP, on behalf of Anthem Golf  
 and Country Club;

1 Mr. Norman D. James and Mr. Jay L. Shapiro,  
2 FENNEMORE CRAIG, P.C., on behalf of DMB White  
Tank, LLP;

3 Ms. Joan S. Burke, LAW OFFICE OF JOAN S.  
4 BURKE, on behalf of Mashie, L.L.C. dba Corte Bella  
Golf Club;

5 Mr. W.R. Hansen, *in propria persona*;

6 Mr. Larry Woods, *in propria persona*;

7 Mr. Marshall Magruder, *in propria persona*;

8 Mr. Philip H. Cook, *in propria persona*;

9 Mr. Daniel Pozefsky, Chief Counsel, on behalf of  
10 Residential Utility Consumer Office; and

11 Ms. Maureen Scott, Senior Staff Counsel, and Ms.  
12 Robin R. Mitchell, Attorney, Legal Division, on behalf  
13 of the Utilities Division of the Arizona Corporation  
Commission.  
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**BY THE COMMISSION:****I. PROCEDURAL HISTORY**

On July 2, 2009, Arizona-American Water Company ("Arizona-American" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for rate increases for its Anthem Water District, Sun City Water District, Anthem/Agua Fria Wastewater District, Sun City Wastewater District and Sun City West Wastewater District. Arizona-American filed supplements to its rate application on July 13, 2009, and August 21, 2009. The application is based on a test year ended December 31, 2008.

On August 24, 2009, the Commission's Utilities Division ("Staff") filed a Letter of Sufficiency indicating that Arizona-American had satisfied the requirements of Arizona Administrative Code R14-2-103 and classifying the Company as a Class A utility.

On August 26, 2009, a procedural order was issued setting a procedural conference to provide an opportunity for discussion of a hearing schedule, public notice, and other procedural issues prior to the issuance of a rate case procedural order.

On September 2, 2009, the procedural conference was convened as scheduled. Appearances were entered by counsel for the Company, the Residential Utility Consumer Office ("RUCO"), and Staff. At the procedural conference, the Company indicated that it planned to file a separate rate consolidation application in the near future.<sup>1</sup> Based on that indication, the issue of appropriate customer notice of a rate consolidation proposal was brought to the attention of the parties present.<sup>2</sup> The procedural conference was then recessed to allow the parties time to meet and discuss an appropriate form of notice.

On September 3, 2009, the procedural conference reconvened as requested by the parties. The Company stated that it intended to proceed with the application as filed, and not to file the rate consolidation application discussed the previous day.<sup>3</sup> The Company agreed to prepare a form of

<sup>1</sup> Transcript of September 2, 2009 Procedural Conference at 5.

<sup>2</sup> *Id.* at 14-20.

<sup>3</sup> *Id.* at 27.

1 public notice of the application in cooperation with RUCO and Staff, and to file it for consideration.

2  
3 On September 14, 2009, Arizona-American filed a proposed form of notice. In the filing, the  
4 Company indicated that Staff had found the proposed form of notice acceptable, and that RUCO had  
5 informed the Company that RUCO did not expect to have comments on it. The proposed form of  
6 notice made no mention of rate consolidation, and was designed to be provided only to customers of  
7 the Anthem Water district, Sun City Water district, Anthem/Agua Fria Wastewater district, Sun City  
8 Wastewater district and Sun City West Wastewater district.

9 On September 24, 2009, a procedural order was issued setting a hearing on the application to  
10 commence on April 19, 2010, setting associated procedural deadlines, and requiring the Company to  
11 provide public notice of the application in the form proposed by the Company and agreed to by Staff  
12 and RUCO.

13 On December 8, 2009, Decision No. 71410 was issued in Docket Nos. W-01303A-08-0227  
14 et al. ("08-0227 Docket"). Decision No. 71410 ruled on the Company's previous rate application  
15 for its Agua Fria Water district, Havasu Water district, Mohave Water and Mohave Wastewater  
16 districts, Paradise Valley Water district, Sun City West Water district and Tubac Water district.  
17 Decision No. 71410 stated that Docket No. 08-0227 would

18 remain open for the limited purpose of consolidation in the Company's next rate case  
19 with a separate docket in which a revenue-neutral change to rate design of all  
20 Arizona-American Water Company's water districts or other appropriate proposals or  
all Arizona-American's water and wastewater districts or other appropriate proposals  
may be considered simultaneously, after appropriate public notice, with appropriate  
opportunity for informed public comment and participation.<sup>4</sup>

21 On March 1, 2010, The Camelback Inn, Sanctuary on Camelback Mountain, the  
22 Intercontinental Montelucia Resort and Spa, and the Scottsdale Cottonwoods Resort and Suites  
23 (collectively the "Resorts") filed a Motion to Intervene. The Resorts are customers of the  
24 Company's Paradise Valley Water district. In the filing, the Resorts stated that on February 10,  
25 2010, the Resorts learned that the instant case was pending, and were provided an agenda to a  
26 meeting at the offices of the Company entitled "Rate Consolidation Scenarios." The Resorts  
27 attached a copy of the agenda to their Motion to Intervene, and stated that the agenda informed the

28 <sup>4</sup> Decision No. 71410 at 78.



1 Resorts that Staff would be making a rate consolidation proposal on March 22, 2010, in this docket,  
2 and that responsive testimony to Staff's proposal would be due on or about April 5, 2010. The  
3 Resorts stated that February 10, 2010, was the first time the Resorts had notice that a possible  
4 consolidated rate structure would be developed for the Commission's consideration in this case that  
5 would then be applied to the other districts. The Resorts noted that there might be other Arizona-  
6 American customers in other districts that had not been provided notice of this proceeding and might  
7 be directly and substantially affected by rate consolidation. The Resorts requested a waiver of the  
8 intervention deadline based upon lack of notice, and that they be granted intervention.  
9

10 On March 9, 2010, a procedural order was issued granting the Resorts' Motion to Intervene  
11 and Staff's Motion for Extension and Request for Procedural Conference. The procedural order  
12 stated that in light of Staff's plans to file a rate consolidation proposal with its rate design testimony  
13 in this docket, the notice issues initially raised at the September 2, 2009, procedural conference must  
14 be properly addressed. A procedural conference was set to commence on March 12, 2010, for the  
15 purpose of discussing proper and appropriate notice related to any rate consolidation proposal made  
16 in this docket.

17 On March 12, 2010, the Town of Paradise Valley ("Paradise Valley") filed a Motion to  
18 Intervene, which stated that the first time it had notice that a possible consolidated rate structure  
19 would be developed for the Commission's consideration in this case that would then be applied to  
20 the other districts was February 10, 2010.

21 On March 12, 2010, the procedural conference was convened as scheduled. Appearances  
22 were entered through counsel for the Company, Anthem Community Council ("Council"), the  
23 Resorts, RUCO, and Staff. Paradise Valley also appeared and was granted intervention. At the  
24 procedural conference, Staff confirmed that it planned to file rate consolidation proposals with  
25 testimony on March 29, 2010. Staff stated that while it was unknown at that time what Staff's  
26 recommendation would be, any Staff rate consolidation proposal would likely affect customers in all  
27 of Arizona-American's districts. Some parties present expressed the concern that a solution to the  
28 rate consolidation notice issue should not delay the scheduled April 19, 2010, commencement of the

1 hearing on the Company's application. The parties were informed that in order to allow an  
2 appropriate opportunity for informed public comment, intervention, and full participation of any  
3 party wishing to participate in the rate consolidation portion of the upcoming hearing, that a portion  
4 of the hearing would have to be delayed. Staff was directed to proceed with its proposed March 29,  
5 2010, filing of testimony and exhibits on rate design/rate consolidation, and the Company was  
6 directed to file its rebuttal testimony on rate design/rate consolidation on April 5, 2010, as proposed.  
7 The parties were informed that a procedural schedule for the filing of intervenors' responsive  
8 testimony to rate design/rate consolidation testimony would be forthcoming.  
9

10 On March 18, 2010, a procedural order was issued bifurcating the hearing in this matter into  
11 two phases, with the second phase ("Phase II") to include Commission consideration of rate design  
12 and rate consolidation issues. The procedural order directed the Company to mail to each of its  
13 customers in all its districts public notice of the bifurcation, the new intervention deadline for Phase  
14 II, and the hearing dates and filing deadlines for both Phase I and Phase II of the proceedings. The  
15 ordered form of public notice was based on the Company's March 16, 2010, filing of a form of  
16 notice which the Company had circulated to all parties, and which incorporated all comments  
17 received from the parties at the time of filing.

18 Intervention in this matter was granted to RUCO, the Council, the Sun City West Property  
19 Owners and Residents Association ("PORA"), W.R. Hansen, the Water Utility Association of  
20 Arizona ("WUAA"), the Resorts, Paradise Valley, Anthem Golf and Country Club ("Anthem  
21 Golf"), Marshall Magruder, Larry D. Woods,<sup>5</sup> Philip H. Cook, DMB White Tank, LLC ("DMB"),  
22 and Mashic, LLC dba Corte Bella Golf Club ("Corte Bella").

23 The written public comment filed in this matter was extensive, with approximately 3,681  
24 customers filing comments. In addition, local public comment sessions were held by  
25 Commissioners in Anthem and Sun City, Arizona, and the record includes the transcribed public  
26 comments made orally at those sessions.

27 <sup>5</sup> In Phase I of this proceeding, Mr. Woods represented PORA subject to the conditions required by Rule 31(d)(28) of the  
28 Rules of the Arizona Supreme Court. Mr. Woods participated in Phase II of this proceeding on his own behalf, and not  
on behalf of PORA.

On April 19, 2010, the evidentiary hearing commenced on Phase I issues as scheduled, and concluded on April 30, 2010. Phase II of the evidentiary hearing commenced as scheduled on May 18, 2010, and concluded on June 3, 2010. Prior to the taking of evidence on both April 19, 2010 and May 18, 2010 public comment was received orally and transcribed for the record.

Initial closing briefs were filed on July 16, 2010, by the Company, the Council, the Resorts, Paradise Valley, Marshall Magruder, W.R. Hansen, Larry Woods, DMB, Corte Bella, RUCO, and Staff. Reply closing briefs were filed on August 16, 2010, by the Company, the Council, Anthem Golf, Marshall Magruder, DMB, Corte Bella, RUCO, and Staff, and this matter was taken under advisement.

## II. APPLICATION

### A. Company

Arizona-American, an Arizona public service corporation, is a wholly owned subsidiary of American Water Works ("American Water"), the largest investor-owned water and wastewater utility in the United States. American Water owns a number of regulated water and wastewater subsidiaries that operate in 32 states, in addition to non-regulated subsidiaries. American Water raises debt capital for its subsidiaries through its financing subsidiary American Water Capital Corp. American Water is listed on the New York stock exchange as AWK. American Water has undertaken several ownership changes over the past several years.<sup>6</sup> Until 2003, American water was a publicly traded company headquartered in Voorhees, New Jersey.<sup>7</sup> In 2003, American Water's stock was acquired by RWE Aktiengesellschaft ("RWE"), and became a wholly-owned subsidiary of RWE.<sup>8</sup> In 2005, RWE announced its intention to exit from its water activities in the United States and elsewhere and, in connection with this, sold approximately 63.2 million shares in an initial public offering ("IPO") of American Water's shares.<sup>9</sup> This sale amounted to approximately 40 percent of American Water's shares being owned by the investing public and the remaining 60

<sup>6</sup> Direct Testimony of Staff witness Gerald Becker (Exh. S-9) at 3.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

1 percent still owned by RWE.<sup>10</sup> During the fourth quarter of 2009, RWE fully divested its remaining  
 2 ownership of American Water through the consummation of additional IPOs, and all associated  
 3 board members have resigned from the Board of Directors.

4 Arizona-American is Arizona's largest investor-owned water and wastewater utility,  
 5 operating twelve water and wastewater systems in Arizona, serving approximately 150,000  
 6 customers located in portions of Maricopa, Mohave, and Santa Cruz Counties. During the test year,  
 7 the Anthem Water district served approximately 8,700 customers in the Anthem Community,<sup>11</sup> the  
 8 Sun City Water district served approximately 23,000 customers in Sun City, the Town of  
 9 Youngtown, and small sections of Peoria and Surprise,<sup>12</sup> the Anthem/Agua Fria Wastewater district  
 10 served approximately 10,121 customers in the Anthem, Verrado, and Russell Ranch communities,<sup>13</sup>  
 11 the Sun City Wastewater district served approximately 21,965 customers in Sun City, the Town of  
 12 Youngtown, and small sections of Peoria and Surprise,<sup>14</sup> and the Sun City West Wastewater district  
 13 served approximately 14,968 customers in Sun City West and the Corte Bella community.<sup>15</sup>

14 Arizona-American's President Paul Townsley testified that the Company's financial position  
 15 is poor and that Arizona-American has lost approximately \$30 million since American Water  
 16 purchased the water and wastewater assets of Citizens Utilities in 2002.<sup>16</sup> According to Mr.  
 17 Townsley, Arizona-American experienced a net loss of \$1.8 million in 2008, an improvement over  
 18 its \$4.6 million loss in 2007.<sup>17</sup> Arizona-American has not paid a dividend to its shareholders since  
 19 2003.<sup>18</sup> Mr. Townsley stated that as of December 31, 2008, Arizona-American's times interest  
 20 earned ratio ("TIER")<sup>19</sup> was 0.52.

21 During this proceeding, the Company proposed that the Commission consider statewide rate  
 22

23 <sup>10</sup> *Id.*

24 <sup>11</sup> *Id.* at 4.

<sup>12</sup> *Id.*

25 <sup>13</sup> Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at Exhibit DMH-3 at 4, DMH-4 at 6, and DMH-6 at 4.

<sup>14</sup> *Id.* at Exhibit DMH-5 at 4.

26 <sup>15</sup> *Id.* at Exhibit DMH-6 at 5.

<sup>16</sup> Direct Testimony of Company witness Paul Townsley (Exh. A-3) at 3.

27 <sup>17</sup> *Id.*

<sup>18</sup> *Id.* at 7.

28 <sup>19</sup> TIER represents the number of times earnings will cover interest expense on short-term and long-term debt. A TIER of less than 1.0 is not sustainable in the long term.

consolidation, citing, among other considerations, improved rate case efficiency, improved ability to make needed capital investments in smaller districts, and a desire to bring the tariff structure of water and wastewater utilities more in line with those of other regulated utilities in Arizona.<sup>20</sup>

### B. Summary of Revenue Recommendations

By district, adjusted test year revenues were as follows:

Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
\$7,492,744	\$9,283,101	\$8,637,123	\$5,940,381	\$5,661,710

By district, Arizona-American's proposed revenues and the revenue recommendations of the parties who submitted schedules are as follows:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Company	\$13,455,431	\$11,166,039	\$13,926,904	\$8,097,263	\$7,142,475
RUCO	\$12,516,000	\$9,787,589	\$13,684,829	\$7,435,703	\$6,419,979
Staff	\$13,420,925	\$11,126,179	\$13,668,321	\$7,665,720	\$7,137,298

The Council did not present revenue schedules, but based on its recommended reductions to the rate bases and rates of return recommended by the Company, RUCO and Staff for the Anthem/Agua Fria Wastewater and Anthem Water districts,<sup>21</sup> the Council recommends reductions to the revenue requirements recommended by those parties for those districts.<sup>22</sup>

## III. RATE BASE

### A. Rate Base Recommendations

The parties recommend the following rate bases for the districts in their final schedules:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Company	\$57,422,164	\$28,376,946	\$45,322,775	\$15,656,720	\$18,207,774

<sup>20</sup> Direct Testimony of Company witness Paul Townsley (Exh. A-3) at 14.

<sup>21</sup> Council Final Schedules Anthem-Legal 1, Anthem-Legal 2, Anthem-3.

<sup>22</sup> *Id.*

Staff	\$57,248,934	\$28,192,680	\$45,115,225	\$15,488,742	\$18,098,487
RUCO	\$57,258,174	\$26,212,284	\$45,260,942	\$14,595,027	\$18,095,016

The differences in rate base recommendations by the Company, RUCO and Staff are due to disputes about post-test year plant in the Sun City Water district, recovery of costs under an agreement the Company has with the City of Glendale affecting the Sun City West Wastewater district, and calculation of cash working capital in each of the districts.

The Council did not present rate base schedules, but recommends reductions to the rate bases recommended by the Company, RUCO and Staff for the Anthem/Agua Fria Wastewater and Anthem Water districts.<sup>23</sup> The Council's recommended reductions are related to its position on the Company's refund payments made to Pulte and to its position on the Northwest Plant allocations between Anthem/Agua Fria Wastewater and the Sun City West Wastewater districts.

#### **B. Post Test Year Plant (Sun City Water)**

The application proposes inclusion in plant in service of a new Well 5.1 which was completed in May 2009 to replace a retired well in the Sun City Water district, at a cost of \$1,587,149.<sup>24</sup> The Company's witness testified that Arizona-American completed this project on an expedited basis and under budget in May 2009, which helped to ensure an adequate water supply for the peak summer season.<sup>25</sup>

RUCO recommends that Well 5.1 not be allowed in plant in service because RUCO believes its inclusion would violate the matching principle, and there are no exceptional or extraordinary circumstances that would justify its inclusion.<sup>26</sup> RUCO argues that the project's cost is not significant enough to justify a departure from the requirement that plant be in service during the test year, because it comprises just 0.47 percent of the combined gross utility plant in service in this rate case filing.<sup>27</sup>

<sup>23</sup> *Id.*

<sup>24</sup> Rebuttal Testimony of Company witness Joseph Gross (Exh. A-9) at 2.

<sup>25</sup> Phase I Tr. at 525-26.

<sup>26</sup> RUCO Br. at 5.

<sup>27</sup> *Id.*; Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 7.

Staff disagrees with RUCO's recommendation to exclude Well 5.1 from plant in service.<sup>28</sup> Staff recommends that Well 5.1 be included in plant in service because the old Well 5.1 was retired in 2007 and abandoned in 2008, the new Well 5.1 was in service at the time of Staff's inspection, and is used and useful.<sup>29</sup>

The Company argues that Well 5.1 meets criteria under which the Commission has allowed post-test year plant in rate base, because the project cost is significant and substantial, representing approximately 5.6 percent of the Sun City Water district's rate base; is revenue neutral; and that the project was prudent and necessary to provide adequate water supply to customers during the summer peak demand period in 2009.<sup>30</sup>

The construction of Well 5.1 was necessary in order to replace an aged retired well in order to provide continuous, reliable and adequate service to customers. Staff has verified that it is in service and that it is used to provide service to existing customers. We agree with Staff and the Company that it is reasonable and appropriate to include Well 5.1 in rate base at this time.

**C. City of Glendale Sewage Transportation Agreement - 99<sup>th</sup> Avenue Interceptor Replacement Costs (Sun City Wastewater)**

Arizona-American has long been a party to a City of Glendale Sewage Transportation Agreement ("Glendale Agreement"), by which the Company acquired rights from the City of Glendale to utilize the 99<sup>th</sup> Avenue Interceptor to transport sewage from the Sun City Wastewater district to the Tolleson Treatment Plant.<sup>31</sup> The 99<sup>th</sup> Avenue Interceptor is a sewer trunk main that is owned by multiple municipalities.<sup>32</sup> The Company's participation in the Glendale Agreement has provided it with a cost-effective means to transport Sun City Wastewater sewage flows instead of constructing its own treatment plant.<sup>33</sup>

In November 2009, the Company received an invoice in the amount of \$917,906.09 for

<sup>28</sup> Co. Br. at 8-9; Staff Br. at 5.

<sup>29</sup> Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at 13.

<sup>30</sup> Co. Br. at 8.

<sup>31</sup> Rebuttal Testimony of Company witness Miles Kiger (Exh. A-14) at 2 and Exhibit MHK-1R.

<sup>32</sup> Phase 1 Tr. at 550-51.

<sup>33</sup> *Id.*

1 replacement costs related to the 99<sup>th</sup> Avenue Interceptor incurred prior to that date.<sup>34</sup> The Company  
 2 paid the invoice on April 2, 2010.<sup>35</sup> At the hearing, the Company provided the testimony of Mr.  
 3 Weber, an employee of the City of Glendale, who discussed the replacement costs and the process  
 4 the City of Glendale used to validate the costs prior to invoicing Arizona-American for its  
 5 proportionate share.<sup>36</sup>

6  
 7 The Company requested an accounting order authorizing the deferral of \$917,906 in capital  
 8 improvement costs for the Company's proportionate share of the 99<sup>th</sup> Avenue Interceptor project  
 9 under the Glendale Agreement.<sup>37</sup> The Company stated that their requested treatment is similar to the  
 10 costs included in rate components 3 and 4 of the Tolleson Agreement for which the Company  
 11 obtained an accounting order from the Commission.<sup>38</sup>

12 Staff recommends denial of the request for an accounting order. Staff's witness testified that  
 13 deferral is unnecessary, because the proper classification ratemaking treatment of the 99<sup>th</sup> Avenue  
 14 Interceptor costs is known at this time, unlike the Tolleson Agreement costs.<sup>39</sup> During Phase II of  
 15 the hearing, after having an opportunity to consider the testimony presented during Phase I, Staff's  
 16 witness testified that capitalization of the costs as prescribed by the Uniform System of Accounts  
 17 ("USOA") and generally accepted accounting principles ("GAAP") provides for appropriate cost  
 18 recovery.<sup>40</sup> Staff recommends that the amounts paid by the Company under its agreement with the  
 19 City of Glendale to use the 99<sup>th</sup> Avenue Interceptor for sewer transport be treated as a capital lease,  
 20 and should be included in rate base for the Sun City Wastewater district.<sup>41</sup> Staff determined that the  
 21 Company's payment for 100 percent of the 99<sup>th</sup> Avenue Interceptor's capacity it uses equals the fair  
 22 value of the invoiced improvement cost, such that the \$917,906 in capital improvement costs should  
 23 be capitalized beginning on the date the replacement became effective.<sup>42</sup> Staff recommends that

24 <sup>34</sup> Rebuttal Testimony of Company witness Miles Kiger (Exh. A-14) at 2 and Exhibit MHK-2R.

25 <sup>35</sup> Phase I Tr. at 135; Exh. A-24.

26 <sup>36</sup> Phase I Tr. at 458-464.

27 <sup>37</sup> Rebuttal Testimony of Company witness Miles Kiger (Exh. A-14) at 2.

28 <sup>38</sup> *Id.* at 2-3.

<sup>39</sup> Phase II Tr. at 973.

<sup>40</sup> *Id.* at 970-971.

<sup>41</sup> Staff Reply Br. at 3; Tr. at 972; Exhs. S-13 and S-14.

<sup>42</sup> Phase II Tr. at 972.



1 because the replacement was performed primarily before, but also during and shortly after the test  
 2 year, that the replacement costs should be included in rate base, net of accumulated depreciation  
 3 using the authorized depreciation rate for the plant account in which the replacement costs are  
 4 recorded.<sup>43</sup>

5  
 6 The Company accepted Staff's position on the 99<sup>th</sup> Avenue Interceptor replacement costs.  
 7 RUCO does not object to inclusion of identified 99<sup>th</sup> Avenue Interceptor test year replacement costs  
 8 in rate base, but did not include any of the costs in its final schedules, because during Phase I of the  
 9 hearing, RUCO's witness was unable to readily identify the test year amount from the Company's  
 10 hearing exhibit.<sup>44</sup>

11 Staff's recommended treatment of the of \$917,906 in capital improvement costs, net of  
 12 accumulated depreciation, for the Company's proportionate share of the 99<sup>th</sup> Avenue Interceptor  
 13 project under the Glendale Agreement, is reasonable and will be adopted.

#### 14 **D. Cash Working Capital (All Districts)**

15 In preparing its cash working capital requirement for this case, the Company performed a  
 16 lead/lag study.<sup>45</sup> A utility must have cash on hand to finance cost of service in the time period  
 17 between when service is rendered and associated revenues are collected, and the cash working  
 18 capital component of a utility's working capital allowance measures the amount of investor-supplied  
 19 capital necessary for a utility to meet this need. A lead/lag study measures the actual lead and lag  
 20 days attributable to individual revenue and expense items, and is the most accurate way to measure  
 21 the cash working capital requirement. Revenue lag days are determined by measuring the amount of  
 22 time between provision of services and the receipt of payment for those services. Expense lag days  
 23 are determined by measuring the time between the incurrence of expenses and the payment of those  
 24 obligations. Expense lag days offset revenue lag days. The resulting cash working capital amount is  
 25 added to or subtracted from the Company's rate base.

26 The parties' cash working capital recommendations as represented in their final schedules

27 <sup>43</sup> Staff Br. at 10.

28 <sup>44</sup> RUCO Reply Br. at 12, citing to Phase I Tr. at 932-933.

<sup>45</sup> Direct Testimony of Company witness Linda J. Gutowski (Exh. A-17) at 3.

are as follows, by district:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Company	\$200,095	\$627,027	\$336,115	\$255,760	\$311,580
Staff	\$(59,108)	\$272,781	\$5,948	\$9,426	\$116,869
RUCO	\$36,104	\$415,091	\$198,901	\$102,182	\$198,822

# 1. Expense Lag – Management Fees

The Company uses a shared services model through which it procures certain management services through an affiliate, American Water Works Services Company ("Service Company"). The Company pays management fees for its share of services a month in advance, and the Service Company uses the payments to pay payroll, rent, insurance, utilities, and other expenses.<sup>46</sup> The Company states that it makes the advance payments pursuant to a 1989 agreement with the Service Company.<sup>47</sup> The Service Company bills Arizona-American in advance, and on the following bill, trues up the actual amount charged for the prior month, with a credit for any interest earned by the Service Company.<sup>48</sup> The Company calculated a lead of 11.25 days for the expense lag as it relates to management fees.<sup>49</sup> The Company's witness testified that 11.25 lead days is reflective of the Company's actual lead days for payment of management fees to its service company affiliate.<sup>50</sup> The Company's witness stated that the payments are made in advance because the Service Company has no water or sewer customers; and that the Service Company is an "at cost" affiliate, and that without the advance payments, the Service Company's working capital costs would increase and

<sup>46</sup> Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-18) at 10; Phase 1 Tr. at 589.

<sup>47</sup> *Id.* Ms. Gutowski's testimony states that Article IV, BILLING PROCEDURES, Section 4.1 of the 1989 Service Company agreement states:

As soon as practicable after the last day of each month, Service Company shall render a bill to Water Company for all amounts due from Water Company for services and expenses each month *plus an amount equal to the estimated cost of such services and expenses for the current month* . . . All amounts so billed shall reflect the credit for payments made on the estimated portion of the prior bill and shall be paid by Water Company within a reasonable time after receipt of the bill therefore. (emphasis added by Ms. Gutowski.)

<sup>48</sup> Phase 1 Tr. at 389, 760.

<sup>49</sup> Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-18) at 10; Exh. A-30.

<sup>50</sup> Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-18) at 11.

subsequently be passed on to Arizona-American.<sup>51</sup> The Company's witness testified that given the unique nature of the business relationship between Arizona-American and the Service Company, the terms of the agreement are reasonable.<sup>52</sup> The Company argues that because this piece of the expense lag is based on the Company's actual experience, it should be accepted by the Commission.<sup>53</sup> The Company's witness also testified that its calculation in this case used the same kind of lead days used in the 2008 Working Capital calculation that was approved as part of Decision No. 71410.<sup>54</sup>

Staff disagrees with the Company's calculation of a lead of 11.25 days for the expense lag as it relates to management fees. Staff witnesses testified that lead/lag days should not be based on internal agreements made between the Company and its unregulated affiliate.<sup>55</sup> Staff argues that were the Service Company not an affiliate, the procurement and payment services would be at arms' length, and might be more commercially reasonable.<sup>56</sup> Staff expressed concern that the use of an internal agreement to calculate lead/lag days might result in a situation where an unregulated utility affiliate may expect payments even sooner than one month in advance, or prepayment of management fees, with ratepayers supporting this internal circumstance through cash working capital.<sup>57</sup>

Staff further argues that the cash working capital approved in Decision No. 71410 was based on a lead of 3.88 days for management expenses, and not 11.25 lead days as implied by the Company's statement that the same type of lead days were used in that case.<sup>58</sup> Staff recommends that the Company's proposed 11.25 lead days be disregarded in the calculation of cash working capital.<sup>59</sup> Staff does not recommend using the 3.88 lead days allowed in Decision No. 71410, because no lead/lag study was performed to establish the payment pattern of the affiliate service

<sup>51</sup> *Id.* at 10.

<sup>52</sup> *Id.* at 10-11.

<sup>53</sup> Co. Br. at 15.

<sup>54</sup> Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-18) at 11.

<sup>55</sup> Surrebuttal Testimony of Staff witnesses Gerald Becker (Exh. S-10) at 5, and Garry McMurry (Exh. S-6) at 4.

<sup>56</sup> Staff Reply Br. at 2.

<sup>57</sup> Surrebuttal Testimony of Staff witnesses Gerald Becker (Exh. S-10) at 5, and Garry McMurry (Exh. S-6) at 4; Staff Reply Br. at 3.

<sup>58</sup> Staff Br. at 4.

<sup>59</sup> Surrebuttal Testimony of Staff witnesses Gerald Becker (Exh. S-10) at 6, and Garry McMurry (Exh. S-6) at 5.

provided.<sup>60</sup>

RUCO also argues that the prepayment of affiliate management fees is unreasonable and constitutes overreaching because affiliated transactions are not 'arms' length transactions, and recommends that the lag applied to management fees be adjusted to commercially reasonable terms.<sup>61</sup>

## 2. Revenue Lag

RUCO disagrees with the Company's proposed collection lag.<sup>62</sup> For the test year, the Company calculated an average of 26.1 collection lag days district-wide.<sup>63</sup> The collection lag is the calculation of the time from the billing date to the date collections are received.<sup>64</sup> RUCO recommends instead that twenty collection lag days be used in calculating the Company's cash working capital, because the due date for payment of billings for water and wastewater service is twenty days and does not differ by the type of customer, and that the Company's proposed revenue lags assume that customers, on average, throughout the year, are not complying with the payment terms.<sup>65</sup> RUCO argues that the Company's revenue lags are excessive and should be rejected.<sup>66</sup>

The Company responds that RUCO's recommendation for a twenty day collection lag, based solely on the due date of each bill, ignores the realities of the collection process and should not be adopted.<sup>67</sup> The Company explains that while each bill is sent out with a due date that is twenty days after the billing date, the Commission's rules and the Company's tariffs contemplate that payment may be made after the due date, with a late payment fee to be charged after the twenty-fifth day.<sup>68</sup> After that time, the Company also attempts to provide customers with additional notices prior to disconnection.<sup>69</sup> The Company asserts that in light of its collection process, and the Company's

<sup>60</sup> Staff Br. at 4.

<sup>61</sup> RUCO Br. at 10-11, citing to Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 25-26, 28; RUCO Reply Br. at 6.

<sup>62</sup> Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 12-22; RUCO Br. at 10.

<sup>63</sup> Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-18) at 9.

<sup>64</sup> Phase I Tr. at 586.

<sup>65</sup> RUCO Br. at 7-8, 11, citing to Direct Testimony of RUCO witness Ralph Smith (Exh. R-9) at 21 and Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 11.

<sup>66</sup> RUCO Br. at 10; RUCO Reply Br. at 6.

<sup>67</sup> Co. Br. at 14.

<sup>68</sup> Co. Br. at 13, citing to Exh. A-36.

<sup>69</sup> Phase I-Tr. at 587-88.

increasing number of charge-offs, a collection lag of 26.1 days is reasonable and appropriate.<sup>70</sup>

Staff did not brief this issue.

### 3. Conclusion

We fully agree with RUCO and Staff that the Company's internal arrangement with its unregulated affiliate should not dictate its need for cash working capital. However, we are not convinced, based on the record in this proceeding, that inclusion of the 26.1 collection lag days in the cash working capital calculation is inappropriate. Overall, we find that Staff's proposed cash working capital is the most reasonable and appropriate recommendation in light of the facts presented, and will adopt it.

We find that a reasonable and appropriate amount of cash working capital for the districts for purposes of this proceeding is as follows:

Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
\$(66,082)	\$268,966	\$7,650	\$10,661	\$114,920

#### **E. Allocation of Northwest Valley Treatment Plant (Anthem/Agua Fria Wastewater and Sun City West Wastewater)**

The Northwest Valley Regional Water Reclamation Facility ("Northwest Valley") treats wastewater flows from both the Anthem/Agua Fria Wastewater district and the Sun City West wastewater district. In Decision No. 70209 (March 20, 2008), the Company was ordered to allocate 68 percent of the Northwest Valley plant costs to the Sun City West Wastewater district.<sup>71</sup> Decision No. 70372 (June 13, 2008) ordered the allocation of 32 percent of the Northwest Valley plant costs to the Anthem/Agua Fria Wastewater district.<sup>72</sup>

Based on its growth projections in this proceeding, Staff recommends that the Northwest Valley plant be allocated 28 percent to the Anthem/Agua Fria Wastewater district and 72 percent to

<sup>70</sup> Co. Br. at 14.

<sup>71</sup> Decision No. 70209 at 5.

1 the Sun City West Wastewater district.<sup>73</sup> The Company and RUCO are in agreement with Staff's  
2 recommended allocation.

3  
4 Staff conducted a linear regression analysis, using actual and projected growth numbers, to  
5 determine that the Sun City West Wastewater district could have approximately 15,055 customers  
6 by the end of 2013, and will use approximately 72 percent of the Northwest Valley plant's  
7 capacity.<sup>74</sup> Staff anticipates rapid growth in the Northeast Agua Fria area known as Corte Bella,  
8 which lies within the Agua Fria Wastewater district, but whose flows are treated by the Northwest  
9 Valley plant due to its proximity.<sup>75</sup> Staff's growth analysis for the Corte Bella area was not  
10 performed with linear regression, due to the unavailability of sufficient data points, as Staff had  
11 access to accurate growth numbers for that area only for 2007 and 2008.<sup>76</sup> Using the available  
12 growth numbers for 2007 and 2008, Staff projected that 28 percent of the Northwest Plant's capacity  
13 will be needed to serve customers in the Northeast Agua Fria area.<sup>77</sup>

15 The Council disagrees with Staff's recommended Northwest Valley plant allocation.<sup>78</sup> The  
16 Council argues that Staff's customer growth projections are inaccurate in light of the current  
17 sluggish real estate market that the Council believes will likely experience a sustained delay in  
18 recovery.<sup>79</sup> The Council asserts that its witness Mr. Neidlinger's growth projection appropriately  
19 accounts for recent and continuing reductions in customer growth rates due to the foreseeable  
20 sustained flat housing market, and should be adopted in lieu of Staff's growth projections.<sup>80</sup>

22 Staff contends that Mr. Neidlinger's assertion that Staff's projection was based on the  
23 assumption that there were no customers in the Northeast Agua Fria area at the end of 2004 is  
24

25 <sup>73</sup> Decision No. 70372 at 12.

26 <sup>74</sup> Phase I Tr. at 767, 770; Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at Exhibit DMH-6 at 5.

27 <sup>75</sup> Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at Exhibit DMH-6 at 5.

28 <sup>76</sup> Staff Br. at 8.

<sup>77</sup> Phase I Tr. at 793, 798.

<sup>78</sup> Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at Exhibit DMH-6 at 5, ln 3.

<sup>79</sup> Surrebuttal Testimony of Dan Neidlinger (Exh. Anthem-3) at 6; Council Br. at 12-13; Council Reply Br. at 13-15.

<sup>80</sup> Council Reply Br. at 13.

incorrect.<sup>81</sup> Staff states that Mr. Neidlinger's growth analysis completely disregarded the customer counts for the years 2005 and 2006, based on his assumption that it would be unrealistic to use them because they don't represent what is going to happen in the future in the area.<sup>82</sup> Staff argues that by disregarding the customer counts for the years 2005 and 2006, the Council's methodology does not give an accurate portrayal of growth in the area, and would result in a skewed allocation.<sup>83</sup> Staff argues that while projecting growth is not an exact science, Staff's growth projections are more reflective of future growth, and Staff's allocation recommendation is reasonable.<sup>84</sup>

The Company has accepted Staff's allocation of the Northwest Valley plant, and states that Staff's more moderate adjustment to the Anthem/Agua Fria Wastewater district will lead to less adjustment in the future,<sup>85</sup> and that extensive back-and-forth modification of the allocation percentage based on real estate cycles is not good public policy.<sup>86</sup>

Staff used a reasonable methodology for its growth projections in this case. Staff's growth projection methodology was based on available facts and is more likely to reflect future growth than the methodology advocated by the Council. We find that Staff's growth projection methodology results in a reasonable estimate for the allocation of the Northwest Valley plant, and will therefore adopt it.

**F. Anthem Infrastructure Agreement (Anthem Water and Anthem/Agua Fria Wastewater)**

**1. Background**

In 1997, Arizona-American's predecessor Citizens Utilities Company ("Citizens") and Del Webb Corporation ("Del Webb"), the predecessor of Pulte Corporation ("Pulte"), and subsidiaries of

<sup>81</sup> *Id.* at 14.

<sup>82</sup> Staff Br. at 9.

<sup>83</sup> Phase I Tr. at 873.

<sup>84</sup> Staff Reply Br. at 3.

<sup>85</sup> Staff Br. at 9.

<sup>86</sup> Co. Br. at 15; Co. Reply Br. at 6.

<sup>87</sup> Co. Br. at 16; Phase I Tr. at 146-47.

1 Citizens and Del Webb<sup>87</sup> entered into an Agreement for the Villages at Desert Hills  
 2 Water/Wastewater Agreement ("Infrastructure Agreement" or "Agreement") regarding the  
 3 construction and funding of the extensive new water and wastewater infrastructure required to serve  
 4 the master-planned community of Anthem.<sup>88</sup> Under the Agreement, Del Webb was to fund much of  
 5 the water and wastewater infrastructure, and Arizona-American would eventually have to refund Del  
 6 Webb's advanced funds in accordance with Exhibit B of the Agreement, with a large balloon  
 7 payment when build-out occurred. Only after projects were completed and refunds made to Pulte  
 8 did the plant become eligible for inclusion in rate base.

9  
 10 In October 1997, Citizens, DistCo and TreatCo filed a joint application in Docket No. W-  
 11 01032A-97-0599 *et al.* for a Certificate of Convenience and Necessity ("CC&N") to provide water  
 12 and wastewater utility service to the planned community development that ultimately became known  
 13 as Anthem. That application specifically sought approval of the Infrastructure Agreement. On June  
 14 19, 1998, Decision No. 60975 was issued in that docket granting Citizens a water and wastewater  
 15 CC&N for the Anthem service territory. Decision No. 60975 adopted the recommendation made by  
 16 Staff that the Commission not consider any determination regarding the requested approval of the  
 17 Infrastructure Agreement.<sup>89</sup>

18 Over the course of the build-out at Anthem, there were several modifications to the  
 19 Agreement. The first modification was the November 30, 1998 Letter Agreement.<sup>90</sup> In the Letter  
 20 Agreement, Del Webb agreed in part to compensate Citizens for the additional costs and reduced  
 21 revenues resulting from the requirements of Decision No. 60975. The Letter Agreement established  
 22 a ten-year revenue stream from Del Webb to Citizens in recognition of the difference between what  
 23 had been agreed to by the parties to the Agreement and the requirements of Decision No. 60975.

24 The second modification to the Infrastructure Agreement was by the First Amendment, dated

25 <sup>87</sup> The original parties to the Agreement were Del Webb and its subsidiary The Villages at Desert Hills, Inc. (as the  
 26 Anthem project was called at the time), Citizens, and Citizens' subsidiaries Citizens Water Services Company of Arizona  
 ("DistCo"), and Citizens Water Resources Company of Arizona ("TreatCo").

27 <sup>88</sup> A copy of the Agreement was admitted into the record of Docket No. WS-1303A-06-0403 as Exhibit A-16. During  
 the hearing in this matter, on April 20, 2010, administrative notice was taken of Decision No. 70372 (June 13, 2008)  
 issued in Docket No. WS-1303A-06-0403, and the entire record of Docket No. WS-1303A-06-0403.

28 <sup>89</sup> Decision No. 60975 at 6, 10.

<sup>90</sup> A copy of the Letter Agreement was admitted into the record of Docket No. WS-1303A-06-0403 as Exhibit A-17.



1 May 8, 2000.<sup>91</sup> The purpose of the First Amendment was to add the 195-acre Jacka Parcel acquired  
2 by Del Webb to the Anthem project and required the parties to take certain actions related to the  
3 addition of the land parcel to Anthem.

4 In May 2000, Citizens, TreatCo and DistCo filed a an application to extend the CC&Ns in  
5 the Anthem service area to include the Jacka Parcel and requested approval of the First Amendment  
6 to the Infrastructure Agreement. On March 13, 2001, the Commission issued Decision No. 63445  
7 approving the CC&N extension application and the First Amendment.

8 In December 2000, Citizens again requested approval of the Infrastructure Agreement, in  
9 connection with an application to delete an area in the City of Phoenix from its certificated territory.  
10 In that case, Citizens argued that the Commission had approved the Infrastructure Agreement by its  
11 approval of the First Amendment in Decision No. 63445. On June 5, 2002, the Commission issued  
12 Decision No. 64897 in which it did not approve the Infrastructure Agreement, and specifically found  
13 that "[a]pproval of the addition of the Jacka Parcel in Decision No. 63445 did not result in approval  
14 of the underlying Infrastructure Agreement that the Commission declined to approve in Decision  
15 No. 60975."<sup>92</sup>

16 In November and December of 2002, Arizona-American filed applications in Docket Nos.  
17 WS-01303A-02-0867 et al. requesting rate adjustments for several of its districts, including its  
18 Anthem Water and Anthem/Agua Fria Wastewater districts. A refund payment was included in the  
19 rate filing.<sup>93</sup> Decision No. 67093 was issued in that docket on June 30, 2004.

20 The third modification to the Infrastructure Agreement was the Second Amendment, dated  
21 September 21, 2000.<sup>94</sup> The Second Amendment revised the Capacity Reservation Section 3.2 of the  
22 Agreement and adjusted the equivalent residential unit ("ERU") benchmarks due to the withdrawal  
23 of the portion of Anthem located within the City of Phoenix from the Arizona-American CC&N,  
24 and the addition of the Jacka Parcel to the CC&N. The Second Amendment also addressed the  
25

26  
27 <sup>91</sup> A copy of the First Amendment was admitted into the record of Docket No. WS-1303A-06-0403 as Exhibit A-18.

28 <sup>92</sup> Decision No. 64897, Findings of Fact No. 7.

<sup>93</sup> Staff Br. at 13.

<sup>94</sup> A copy of the Second Amendment was admitted into the record of Docket No. WS-1303A-06-0403 as Exhibit A-19.

effect of the Phoenix Agreement, and other matters. The Second Amendment included a consent by Del Webb to the assignment by Citizens of its rights and obligations under the Infrastructure Agreement to Arizona-American.

On September 27, 2001, Citizens, Arizona-American, Del Webb and Anthem Arizona LLC entered into the Refund Coordination Agreement,<sup>95</sup> which addressed the allocation of responsibilities between Citizens (including TreatCo and DistCo) and Arizona-American. It also adopted a new schedule for the calculation and allocation of refunds.

The fourth modification to the Infrastructure Agreement, the Third Amendment, dated December 12, 2002,<sup>96</sup> increased the water allocation under the Ak-Chin Lease and again recognized Arizona-American's substitution for Citizens in the Infrastructure Agreement.

In June and August of 2006, Arizona-American filed applications in Docket Nos. WS-01303A-06-0403 et al. requesting rate adjustments for its Anthem Water and Anthem/Agua Fria Wastewater districts. The Council participated as an intervenor in that prior rate case.

Prior to the conclusion of that rate case, on or about October 8, 2007, Arizona-American and Pulte entered into the Fourth Amendment to the Agreement. The Fourth Amendment was intended to address Commission concerns and Arizona-American's financial circumstances by providing further rate relief to Anthem customers, utilizing the following measures:

1. Pulte agreed to delay the final true-up payment by approximately six months, until March 31, 2008;
2. Pulte agreed to reduce the total refundable developer advance by \$1.5 million; and
3. Pulte agreed to defer for two years, without interest, 25 percent of the true-up payment that would otherwise have been due at build-out.

As in this case, in the prior rate case including the Anthem and Anthem/Agua Fria Wastewater districts, in Docket No. WS-1303A-06-0403, numerous public comments, both oral and written, were received in opposition to the requested rate increase. Also, as in this case, the public

<sup>95</sup> A copy of the Refund Coordination Agreement was admitted into the record of Docket No. WS-1303A-06-0403 as Exhibit A-21.

<sup>96</sup> A copy of the Refund Coordination Agreement was admitted into the record of Docket No. WS-1303A-06-0403 as Exhibit A-20.

1 comments expressed displeasure that the Company's proposed rates reflected repayment by  
2 Arizona-American to Pulte for infrastructure costs paid by Pulte, and particularly, that existence of  
3 the advances was not disclosed to homebuyers at the time of purchase.  
4

5 On June 13, 2008, the Commission issued Decision No. 70372 in Docket No. WS-1303A-  
6 06-0403. Decision No. 70372 included in rate base the developer refunds Arizona-American had  
7 made and for which it requested recovery in that case. Decision No. 73072 stated:

8 We take the public comment received in this case seriously and recognize the gravity  
9 of the customers' concerns regarding the infrastructure costs required to provide  
10 water and wastewater utility services for the Anthem community. At this time, no  
11 party has alleged, and we do not find, that the Company's repayment of developer  
12 advances under the Anthem Agreements has been imprudent or improper. . . .

13 Our determination in this case is not intended to have any bearing on our  
14 determination in any subsequent case filed by the Company for these districts  
15 regarding the reasonableness of the Company's agreement to refund to Pulte almost  
16 all of the costs required to construct Anthem's water infrastructure.<sup>97</sup>

17 Decision No. 73072 ordered the Company to ensure that the term of the Fourth Amendment  
18 to the Infrastructure Agreement deferring 25 percent of the true-up payment due from Arizona-  
19 American would inure to the benefit of ratepayers by an appropriate choice of test year for filing its  
20 next rate case.<sup>98</sup>

## 21 2. Pulte Refund True-Up Payments at Issue in this Proceeding

22 On June 29, 2007, Arizona-American refunded \$3,068,300.57 of advances due to Pulte  
23 pursuant to the Infrastructure Agreement and the subsequent amendments thereto.<sup>99</sup> Of that amount,  
24 \$2,147,810.40 was for water and \$920,490.17 was for wastewater.<sup>100</sup> On March 31, 2008, pursuant  
25 to the terms of the Infrastructure Agreement and subsequent amendments thereto, as modified by the  
26 Fourth Amendment described above, Arizona-American refunded \$20,226,122 of the advances due  
27 to Pulte at build-out of the Anthem community, which occurred in September 2007.<sup>101</sup> Of that

28 <sup>97</sup> Decision No. 73072 at 43.

<sup>98</sup> *Id.* at 62.

<sup>99</sup> Exh. Anthem-7.

<sup>100</sup> *Id.*

<sup>101</sup> *Id.*; Rebuttal Testimony of Company witness Paul Townsley (Exh. A-4) at 10; Direct Testimony of Company witness Paul Townsley (Exh. A-3) at 9.

amount, \$14,889,798.55 was for water and \$5,336,323.45 was for wastewater.<sup>102</sup> On March 31, 2010, Arizona-American paid Pulte the remaining 25 percent of the deferred interest-free payment, \$6,742,041, pursuant to the terms of the Infrastructure Agreement and subsequent amendments thereto, as modified by Fourth Amendment described above.<sup>103</sup> Of that amount, \$4,719,428.70 was for water and \$2,022,612.30 was for wastewater.<sup>104</sup> The Company is not seeking recovery of the March 31, 2010 refund payment in this proceeding.<sup>105</sup>

### 3. Council's Proposed Exclusion of Refunds from Rate Base

Prior to commencement of the evidentiary hearing in this case, the Council filed a pre-hearing memorandum alleging that the Infrastructure Agreement constituted an evidence of indebtedness as contemplated in A.R.S. §§ 40-301 to 303. The Council also argues that the Infrastructure Agreement is a main extension agreement as contemplated by A.A.C. R14-2-406. Based on the fact that the Company did not obtain Commission approval pursuant to A.A.R.S. §§ 40-301 to 303 and A.A.C. R14-2-406, the Council requests that the Company's 2007 repayment of \$3,068,300.57 and 2008 repayment of \$20,226,122 to Pulte for infrastructure costs pursuant to the Infrastructure Agreement be excluded from rate base and receive no ratemaking recognition.<sup>106</sup> The Council accordingly proposes adjustments reducing the rate base of the Anthem Water district by \$17,037,609, and reducing the rate base of the Anthem/Agua Fria Wastewater district by \$6,256,813.<sup>107</sup>

The Company argues that the Council's position is not only entirely void of legal merit but also manifestly unfair, because the refund payments represent investment in plant found used and useful in providing service to the Anthem community.<sup>108</sup> Arizona-American states that it is legally entitled to a fair return on and of the investment it has made in the used and useful plant, and that the Council does not provide any reasons that justify a disallowance.<sup>109</sup> The Company states that

<sup>102</sup> Exh. Anthem-7.

<sup>103</sup> *Id.*; Direct Testimony of Company witness Paul Townsley (Exh. A-3) at 9.

<sup>104</sup> Exh. Anthem-7.

<sup>105</sup> Phase I Tr. at 241-42.

<sup>106</sup> Council Br. at 1-7; Council Reply Br. at 2; Council Final Schedules.

<sup>107</sup> Council Final Schedules.

<sup>108</sup> Co. Reply Br. at 10.

<sup>109</sup> *Id.*

1 ratepayers in the Anthem community have enjoyed the benefits of the system since 1998 without the  
 2 full carrying cost of that system being reflected in rates, and that the Company has not earned any  
 3 return on the investments it has made in Anthem since 2003.<sup>110</sup> The Company contends that  
 4 although some in the Anthem community believe that they were misled by Del Webb/Pulte Homes  
 5 when they purchased their homes, that issue is appropriately addressed in the pending class action  
 6 lawsuit against Pulte in federal court, and not in this proceeding.<sup>111</sup>

7  
 8 RUCO states that the refund payments the Company made constitute infrastructure costs,  
 9 which are legitimate costs of service, and that in fairness, the Company should be able to recover its  
 10 legitimate costs.<sup>112</sup>

11 It is Staff's position that all of the plant for which Arizona-American paid Pulte is used and  
 12 useful, and Staff's recommendations in this case accordingly include the plant in rate base.<sup>113</sup> Staff  
 13 agrees with RUCO that the infrastructure costs at issue are legitimate costs of service and that the  
 14 Company should be allowed to recover those costs.<sup>114</sup> Staff states that the Council's argument is  
 15 effectively a request that plant be disallowed, and that the Council has not alleged a legally sound  
 16 basis upon which to alter the ratemaking treatment of the refund payments.<sup>115</sup>

17 a. Whether the Infrastructure Agreement Constitutes "Evidence of  
 18 Indebtedness" Pursuant to A.R.S. §§ 40-301 through 40-303

19 The Council alleges that the Infrastructure Agreement constitutes an evidence of  
 20 indebtedness as contemplated in A.R.S. § 40-301 *et seq.* Based on the fact that the Company did not  
 21 obtain Commission approval of the Infrastructure Agreement pursuant to A.R.S. §§ 40-301 to 303,  
 22 the Council requests that the Company's 2007 and 2008 repayment of advances totaling  
 23 \$23,294,422 by Arizona-American to Pulte pursuant to the Infrastructure Agreement be excluded  
 24 from rate base and receive no ratemaking recognition.

25 The Company states that the Commission's prior Decisions declining to approve or

26 <sup>110</sup> Co. Reply Br at 3, citing to Phase I Tr. at 299-300.

27 <sup>111</sup> Co. Reply Br. at 2.

<sup>112</sup> RUCO Br. at 41.

<sup>113</sup> Staff Br. at 16.

<sup>114</sup> Staff Reply Br. at 7.

<sup>115</sup> Staff Br. at 12.

disapprove the Infrastructure Agreement indicate that it is a "private contract," and not the type of agreement that requires Commission approval.<sup>116</sup> The Company states that the Council has not provided a single example of the Commission treating an agreement of the nature of the Infrastructure Agreement as "evidence of indebtedness" under A.R.S. §§ 40-301 to 303, that to the Company's knowledge the Commission has not done so, and that if the Commission were to now change course and require prior approval under these statutes, nearly every existing main extension and line extension agreement in the State of Arizona would become invalid.<sup>117</sup> The Company asserts that proper statutory construction<sup>118</sup> and application of pertinent equitable principles<sup>119</sup> also compel the conclusion that the Infrastructure Agreement does not constitute "evidence of indebtedness."

The Company additionally states that the Infrastructure Agreement is not required to be treated as debt under GAAP and is not booked as such, which the Company argues is a strong indication that it is not "evidence of indebtedness," citing to Commission Decision No. 69947.<sup>120</sup> The Council charges that by referencing Decision No. 69947's reference to GAAP treatment being indicative of "evidence of indebtedness" the Company "erroneously extends the scope of the Commission's application of GAAP in order to reach the conclusion Arizona-American desires in this proceeding."<sup>121</sup> We disagree. The declaratory order APS sought in that case, and which the Commission declined to issue, would have allowed APS to exclude from treatment as debt two agreements which were classified as long-term debt per GAAP.<sup>122</sup> Instead of issuing the requested declaratory order, Decision No. 69947 set out guidelines for the Company to follow in the event of

<sup>116</sup> Co. Br. at 22; Co. Reply Br. at 10-11.

<sup>117</sup> Co. Br. at 22, 24; Co. Reply Br. at 10.

<sup>118</sup> Co. Br. at 22-24.

<sup>119</sup> *Id.* at 24-25.

<sup>120</sup> *Id.* at 22, citing to *In Re APS*, Docket No. E-01345A-06-0779, Decision No. 69947 (October 30, 2007) at 10-13 (indicating that GAAP guides the determination as to whether an "evidence of indebtedness" exists), and at 11, fn 16 ("GAAP status is the determinant for compliance filings and how the condition test for issuance of debt or equity is calculated."). Decision No. 69947 ruled on an APS request for general financing authority, and denied APS's request for "a declaratory order that confirms that only traditional indebtedness for borrowed money constitutes an 'evidence of indebtedness' under A.R.S. §§ 40-301 and 40-302 and that such other arrangements do not require prior Commission authorization and do not count against the Continuing Long-Term Debt or Continuing Short-Term debt authorizations requested in the application." Decision No. 69947 at 1-2.

<sup>121</sup> Council Reply Br. at 3.

<sup>122</sup> Decision No. 69947 at 11.

changes in GAAP or changes in interpretation of GAAP.<sup>123</sup>

The Company argues that because A.R.S. §§ 40-301 to 303 restrict a public utility's right to contract, they must be narrowly construed and must not be extended to transactions outside their plain terms,<sup>124</sup> and that under the statutory doctrine of *ejusdem generis*, the phrase "other evidence of indebtedness" must be interpreted in light of the character of other terms that precede it,<sup>125</sup> which in this case are "stocks," "stock certificates," "bonds," and "notes."<sup>126</sup> The Company states that agreements such as the Infrastructure Agreement are not designed for the purpose of building up the utility's general and permanent capital structure like an issuance of stock, but rather serve the specific and limited purpose of placing the risks of development on the developer rather than the public utility.<sup>127</sup> The Council advances the argument that the Infrastructure Agreement constitutes a financing agreement whereby Pulte financed the construction of Anthem's water and wastewater facilities through an interest-free loan, and that Arizona-American secured its indebtedness to Pulte through the issuance of two letters of credit.<sup>128</sup> In regard to the Council's reliance on *United States v. Austin*, the securities case cited by the Council in support of its position, the Company does not believe it provides relevant or persuasive authority, because it involves interpretation of the federal securities laws, which are of a different nature and purpose than a state law regulating a public utility's debt and equity.<sup>129</sup> The Company states that the Infrastructure Agreement was a private contract prescribing the terms of the parties' agreement, including a schedule for refund of funds advanced, and the fact that it was backed by letters of credit does not alter its character in that

<sup>123</sup> *Id.* at 17-18.

<sup>124</sup> Co. Br. at 23, citing to, e.g., *Webster Mfg. Co. v. Byrnes*, 207 Cal 630, 637 (Cal. 1929) (analogous California statute) ("The right of contract is by the statute abridged to a certain extent and no reason exists for making an application of the statute not plainly warranted by the language employed in it."), and *Wis. So. Gas Co. v. Pub. Serv. Comm'n*, 57 Wis. 2d 643, 648 (Wis. 1973) (reasoning that similar Wisconsin statute should be "reasonably construed and [not applied] to transactions not clearly covered" by statutory language) (internal quotation marks omitted).

<sup>125</sup> Co. Br. at 23, citing to *Wilderness World, Inc. v. Dep't of Revenue*, 182 Ariz. 196, 199 (Ariz. 1995) ("where general words follow the enumeration of particular classes of persons or things, the general words should be construed as applicable only to persons or things of the same general nature or class of those enumerated.");

<sup>126</sup> Co. Br. at 23.

<sup>127</sup> Co. Reply Br. at 11.

<sup>128</sup> Council Br. at 5, citing to *U.S. v. Austin*, 462 F.2d 724, 736 (10<sup>th</sup> Cir. 1972) (citing *Keller v. City of Scranton*, 49 A. 781, 782 (1901) and *Nelson v. Wilson*, 264 P. 679, 682 (1928) for the proposition that the term "evidence of indebtedness" is not limited to a promissory note or other simple acknowledgement of a debt owing and is held to include all contractual obligations to pay in the future for consideration presently received."); Council Reply Br. at 4-5.

<sup>129</sup> Co. Br. at 12.

1 regard.<sup>130</sup> The Company asserts that the Council appears to be relying on a barebones argument that  
 2 the Infrastructure Agreement is "evidence of indebtedness" merely because it creates contractual  
 3 payment obligations that extend more than one year into the future, and that such simplistic logic  
 4 would amount to a requirement that any routine contractual arrangement extending over one year,  
 5 whether it be for cleaning services, computer software, or document support services, be docketed  
 6 and presented to the Commission for approval.<sup>131</sup>

7  
 8 The Council argues that the Infrastructure Agreement constitutes evidence of indebtedness  
 9 because Arizona-American's audited financial statements list advances in aid of construction  
 10 ("AIAC"), together with proceeds from debt issuances, net borrowings from notes, and capital  
 11 contributions under the heading "Cash flows from financing activities," and that the Staff Report in  
 12 the Company's recent financing application docket considered AIAC in its calculation of short-term  
 13 and long-term debt.<sup>132</sup> The Council's argument is misguided on this point. While the Staff Report  
 14 the Council cited did include AIAC in the analysis of the Company's capital structure, AIAC was  
 15 not included in the calculation of debt.<sup>133</sup>

16 The Company argues that the doctrine of equitable estoppel precludes treating the  
 17 Infrastructure Agreement as "evidence of indebtedness."<sup>134</sup> Arizona-American contends that it was  
 18 perfectly reasonable for it to rely on the Commission's past practice of not requiring prior approval  
 19 for this type of agreement, as well as on the Commission's past Decisions declining to approve or  
 20

21 <sup>130</sup> Co. Reply Br. at 11.

22 <sup>131</sup> *Id.* at 11-12.

23 <sup>132</sup> Council Reply Br. at 5, citing to the Staff Report in Docket No. WS-01303A-09-0407 at 3.

24 <sup>133</sup> *Capital Structure inclusive of AIAC and CIAC*

25 The Company's actual capital structure at December 31, 2008, inclusive of advances-in-aid-of-  
 26 construction ("AIAC") and net contributions-in-aid-of-construction ("CIAC"), modified to reflect  
 27 issuance of the aforementioned \$2.3 million WIFA loan, results in a pro forma capital structure  
 28 consisting of 8.9 percent short-term debt, 28.1 percent long-term debt, 23.1 percent equity, 28.5  
 percent AIAC and 11.3 percent CIAC (Schedule JCM-I, Column [A], lines 28-38).

Staff Report in Docket No. WS-01303A-09-0407 at 3 (footnote omitted).

26 <sup>134</sup> Co. Br. at 25, citing to *Valencia Energy v. Arizona Dep't of Revenue*, 191 Ariz. 565, 567-77 (Ariz. 1998), the  
 27 Company argues that equitable estoppel applies where three elements are present: (1) a party engages in acts  
 28 inconsistent with a position it later adopts, (2) reasonable reliance by the other party, and (3) injury to the latter resulting  
 from the former's repudiation of its prior conduct. The Company further argues that equitable estoppel may be  
 maintained against a governmental entity as long as its application "will not substantially and adversely affect the  
 exercise of governmental powers," citing to *Valencia* at 576-78.



1 disapprove the Infrastructure Agreement, and states that Arizona-American in fact did so rely.<sup>135</sup>  
 2 The Company states that it would suffer substantial injury if the Commission were now to decide  
 3 that the refund payments should be excluded from rate base due to lack of prior approval, and argues  
 4 that such a determination would be inequitable.<sup>136</sup>

5 Staff states that A.R.S. § 40-301(A) requires public service corporations to seek prior  
 6 Commission approval before issuing stocks, bonds, notes or other evidence of indebtedness, and that  
 7 the Council is attempting to shoehorn the Infrastructure Agreement into the category of "evidence of  
 8 indebtedness," but that the attempt does not work.<sup>137</sup> Staff argues that while headings are not law,<sup>138</sup>  
 9 the title of A.R.S. § 40-301, "Issuance of stocks and bonds; authorized purposes," indicates the types  
 10 of instruments the Arizona Legislature intended to be governed by the provision.<sup>139</sup> Staff states that  
 11 the Infrastructure Agreement is not a stock or bond, but an agreement that provides terms and  
 12 conditions of service, as well as refund obligations.<sup>140</sup> Staff does not believe that the Agreement and  
 13 associated agreements constitute "evidence of indebtedness."<sup>141</sup> Staff also points out that while the  
 14 Council would use the Company's failure to obtain Commission approval under A.R.S. §§ 40-301 to  
 15 303 to permanently exclude the full amount of the refund payments from rate base, the Council fails  
 16 to explain how it reconciles this position with the fact that the Company sought Commission  
 17 approval on several occasions but was unsuccessful in obtaining it.<sup>142</sup> Staff argues that taking the  
 18 Council's interpretation of A.R.S. §§ 40-301 to 303 to its logical conclusion would mean that any  
 19 contract that a utility enters into that requires the payment of money over a term would require prior  
 20 Commission approval.<sup>143</sup> Staff agrees with the Company's observation that if the Commission were  
 21 to adopt the Council's interpretation of A.R.S. §§ 40-301 to 303, then nearly every existing main  
 22 extension and line extension agreement in the State of Arizona would become invalid, and the  
 23

24 <sup>135</sup> Co. Br. at 25.

25 <sup>136</sup> *Id.*

26 <sup>137</sup> Staff Br. at 14.

27 <sup>138</sup> *Id.*, referring to A.R.S. § 1-212.

28 <sup>139</sup> Staff Br. at 14.

<sup>140</sup> Staff Br. at 14; Staff Reply Br. at 5.

<sup>141</sup> Staff Reply Br. at 5.

<sup>142</sup> *Id.*

<sup>143</sup> Staff Br. at 14-15.

Commission would be inundated with agreements that could potentially qualify as "other evidences of indebtedness."<sup>144</sup>

RUCO states that whether the Infrastructure Agreement is an evidence of indebtedness is academic at this point, and that the "right and fair thing" is to allow the Company to recover the refunds it made.<sup>145</sup>

We agree with Staff that the Infrastructure Agreement is not a stock or bond, but an agreement that provides terms and conditions of service, as well as refund obligations, and that its approval under A.R.S. §§ 40-301 to 303 was not necessary. As the Company states, agreements such as the Infrastructure Agreement are not designed for the purpose of building up the utility's general and permanent capital structure like an issuance of stock, but rather serve the specific and limited purpose of placing the risks of development on the developer rather than the public utility, as the Infrastructure Agreement did in this case. We find that it was reasonable for Arizona-American not to seek approval under A.R.S. §§ 40-301 to 303 in reliance on the Commission's past practice of not requiring prior approval under that statute for this type of agreement, as well as on the Commission's past Decisions declining to approve or disapprove the Infrastructure Agreement. We are not persuaded by the Council's arguments that the Company's 2007 and 2008 repayment of advances to Pulte pursuant to the Infrastructure Agreement should be excluded from rate base and receive no ratemaking recognition because the Infrastructure Agreement constitutes "evidence of indebtedness" and is void because the Company failed to obtain Commission approval thereof pursuant to A.R.S. §§ 40-301 to 303.

b. A.A.C. R14-2-406

The Council argues that if the Infrastructure Agreement is not "evidence of indebtedness" that it is a main extension agreement as contemplated by A.A.C. R14-2-406. Based on the fact that the Company did not obtain Commission approval of the Infrastructure Agreement pursuant to A.A.C. R14-2-406, the Council requests that the Company's 2007 and 2008 repayment of advances

<sup>144</sup> Staff Reply Br. at 6.

<sup>145</sup> RUCO Br. at 41.

1 totaling \$23,294,422 by Arizona-American to Pulte pursuant to the Infrastructure Agreement be  
2 excluded from rate base and receive no ratemaking recognition.

3  
4 The Commission has on multiple occasions had requests for approval of the Infrastructure  
5 Agreement, but has declined to approve or disapprove it. The Company argues that in fairness, the  
6 Commission's determination that approval was not required cannot now serve as a basis for  
7 disallowing the Pulte refund payments.<sup>146</sup> The Company further argues that even assuming, for the  
8 sake of argument, that approval of the Infrastructure Agreement should have been obtained under  
9 A.A.C. R14-2-406, that failure to obtain approval would not provide a basis for excluding the refund  
10 payments from rate base. The Company states that the main extension rule's specific remedy for  
11 failing to obtain necessary approval is that the refundable advance shall be immediately due and  
12 payable to the person making the advance, a condition that has already been met in this case, as the  
13 Company has satisfied its repayment obligations to Pulte.<sup>147</sup>

14 RUCO states that the Infrastructure Agreement does not meet the requirements for a main  
15 extension agreement, and for the reasons the Commission provided in Decision No. 64897, does not  
16 require Commission approval under A.A.C. R14-2-406.<sup>148</sup>

17 Staff states that the Commission has treated the Infrastructure Agreement somewhat like a  
18 main extension agreement, by treating the prior refund payments as ALAC, but that the Commission  
19 has never approved the Infrastructure Agreement, even though the Company has sought approval.<sup>149</sup>  
20 Staff argues that equitable considerations strongly weigh against the Commission taking the harsh

21  
22 <sup>146</sup> Co. Br. at 25; Co. Reply Br. at 12-13.

23 <sup>147</sup> Co Br. at 26; Co. Reply Br. at 13. R14-2-406 (M) provides as follows:

24 M. All agreements under this rule shall be filed with and approved by the Utilities Division of the Commission. No  
25 agreement shall be approved unless accompanied by a Certificate of Approval to Construct as issued by the Arizona  
26 Department of Health Services. Where agreements for main extensions are not filed and approved by the Utilities  
27 Division, the refundable advance shall be immediately due and payable to the person making the advance.

28 <sup>148</sup> RUCO Reply Br. at 16; RUCO Br. at 37-40, citing the following:

There are other reasons for declining to approve the Infrastructure Agreement in this proceeding. Staff points out that the Agreement is a private contract between the Companies and a third party developer that contains "unequal refunding structures, cost caps, priority services, and penalties" that may be inconsistent with the Commission's standards (Staff Report at 3). According to Staff, the Infrastructure Agreement does not require the Commission's approval and, by not making a determination regarding the Agreement, the Commission "protects its rights to set rates and conditions it deems necessary to protect the public interest" (*id.*).

Decision No. 64897 at 6.

<sup>149</sup> Staff Br. at 15.

1 action proposed by the Council, and recommends that the proposal be disregarded.<sup>150</sup> Staff explains  
 2 that under the Commission's main extension rules, if a utility does not obtain Commission approval  
 3 of a main extension agreement, the remedy is to require the utility to refund all of the money  
 4 advanced, and that the main extension rules do not require the disallowance of plant.<sup>151</sup> Staff's  
 5 position is that the plant has been found to be used and useful, and Staff believes it would be  
 6 inequitable now to penalize the Company as the Council suggests for not obtaining approval of the  
 7 Agreement, when it had sought such approval on several occasions.<sup>152</sup>

8  
 9 The Council acknowledged in its Closing Brief that A.A.C. R14-2-406 requires advances  
 10 made under the provisions of an unapproved agreement to be refunded.<sup>153</sup> The Council did not  
 11 respond in its Reply Brief to the arguments presented by the Company, RUCO and Staff regarding  
 12 the effects of A.A.C. R14-2-406 on the Infrastructure Agreement;

13 As Staff points out, Arizona-American (or its predecessor) sought approval of the  
 14 Infrastructure Agreement and various associated agreements several times, but because the  
 15 agreements went well beyond the typical main extension agreement, the Commission did not  
 16 approve what amounted to private agreements between the parties. The Company has refunded all  
 17 the advances under the Infrastructure Agreement, which is the remedy provided under A.A.C. R14-  
 18 2-406 for failure to obtain approval of a main extension agreement. We find that the fact that the  
 19 Company did not obtain approval of the Infrastructure Agreement pursuant to A.A.C. R14-2-406  
 20 does not provide a valid basis for excluding the refund payments from rate base.

#### 21 c. Reasonableness of the Refund Payments

22 In the alternative to its arguments under A.R.S. §§ 40-301 to 303 A.A.C. and R14-2-406, the  
 23 Council argues that any portion of the disputed refund payments that has not been shown by  
 24 Arizona-American to be reasonable and proper should be permanently excluded from rate base and  
 25 denied any rate base recognition.<sup>154</sup>

26 <sup>150</sup> *Id.*; Staff Reply Br. at 6.

27 <sup>151</sup> Staff Br. at 15.

28 <sup>152</sup> *Id.*

<sup>153</sup> Council Br. at 5-6.

<sup>154</sup> Council Reply Br. at 7.

1 In response to the concern expressed by several parties that there is a degree of unfairness in  
 2 asking Anthem residents to bear the full amount of the balloon payment in rates at this time, Staff  
 3 states that if there is any issue presented regarding the balloon payment, it is one of  
 4 reasonableness.<sup>155</sup> Staff states that it is mindful of the evidence in the record that suggests that an  
 5 agreement to refund the entire advance to Pulte may not have been typical of main extension  
 6 agreements entered into at that time,<sup>156</sup> and other evidence that suggests that the Anthem build-out  
 7 occurred much sooner than expected.<sup>157</sup> Staff states that should the Commission desire to balance  
 8 the equities and interests of the ratepayers and stockholders, the Commission could give some  
 9 recognition to those facts in the record which question the reasonableness of the original build-out  
 10 projections and the Agreement itself.<sup>158</sup>

11 The Council states that evidence introduced in the two latest hearings involving Anthem  
 12 suggest that the Company was aware that the accelerated build-out of the Anthem community ten  
 13 years ahead of schedule could require the balloon payment to become due in 2007, with payment  
 14 showing up in the Company's rates years in advance of the dates indicated to the Commission in the  
 15 1998 CC&N proceedings;<sup>159</sup> and that the Company was aware that Citizens' agreement to refund  
 16 100 percent of developer-funded development costs apparently deviated from the usual practice of  
 17 developers to include approximately 50 percent of development costs in home prices.<sup>160</sup>

18 The Company disagrees with the Council's allegation that it agreed to refund 100 percent of  
 19 developer advances for the Anthem infrastructure. Rather, the Company asserts, the total amount of  
 20 reimbursement to Pulte approximates only 71 percent of Pulte's total investment in the Anthem  
 21 water and wastewater infrastructure and when interest is factored in, the amount of reimbursement  
 22 drops to only approximately 55 percent.<sup>161</sup>

23 The Company contends that it was not unreasonable, imprudent or improper for Citizens and  
 24

25 <sup>155</sup> Staff Br. at 16.

26 <sup>156</sup> *Id.*, citing to Exhibit S-2.

27 <sup>157</sup> Staff Br. at 16, citing to Exhibit S-1.

28 <sup>158</sup> Staff Br. at 16; Staff Reply Br. at 7-8.

<sup>159</sup> Council Br. at 6, citing to Exh. S-1, at 2 and Exh. S-2.

<sup>160</sup> Council Br. at 8, citing to Exh. S-1 at 2.

<sup>161</sup> Co. Reply Br. at 14, citing to Phase I Tr. at 415; Docket No. WS-01303A-06-0403 Tr. at 983-84 (testimony of Pulte witness Daniel Christopher Ward); Tr. at 1118 (testimony of Paul Townsley), and Exhibit P-7.

1 Arizona-American to rely on the Commission's Decisions declining to approve or disapprove the  
 2 Infrastructure Agreement, and proceed to make refund payments.<sup>162</sup> The Council asserts that the  
 3 facts do not support Arizona-American's claim that equitable estoppel applies.<sup>163</sup> The Council  
 4 argues that assuming, *arguendo*, that the estoppel doctrine applies in this instance,<sup>164</sup> Arizona-  
 5 American cannot claim that it made the refunds in reasonable reliance on the Commission's words  
 6 or actions, because the attempts to obtain Commission approval of the Infrastructure Agreement  
 7 indicate the existence of a belief that Commission approval was necessary, and Arizona-American  
 8 knew that the Commission had never approved the Infrastructure Agreement.<sup>165</sup> The Council asserts  
 9 that Arizona-American knew there was a possibility that the Commission would not allow  
 10 ratemaking recognition of the refunds, citing to language in the Fourth Amendment stating that  
 11 "[t]he ACC's decision regarding rate treatment for any amounts refunded pursuant to the previous  
 12 agreement or other amounts included in this Fourth Amendment shall not affect the terms in this  
 13 Fourth Amendment."<sup>166</sup> The Council further asserts that Arizona-American knew that the  
 14 Commission had left the status of the reasonableness of the Infrastructure Agreement refund  
 15 provisions as an open question in Arizona-American's last rate case involving the Anthem  
 16 districts.<sup>167</sup> The Council takes the position that "it would be unfair and against the public interest to  
 17 require Anthem residents to shoulder the burden of AAWC's imprudent decision to enter into a  
 18 questionable financing arrangement and to pay the Disputed Refund Payments particularly, where  
 19 the Commission's previously expressed discomfort with the Infrastructure Agreement provided  
 20 adequate advance notice to AAWC that the Disputed Refund Payments were vulnerable to the  
 21 prospect of disallowance in AAWC's future rate cases."<sup>168</sup>

22  
 23 <sup>162</sup> Co. Br. at 25, fn 123.

24 <sup>163</sup> Council Reply Br. at 8.

25 <sup>164</sup> Council Reply Br. at 7-8, referring to the elements of equitable estoppel listed by the Company in its Closing Brief at  
 26 25, fn 122 where the Company argues that equitable estoppel applies where three elements are present: (1) a party  
 engages in acts inconsistent with a position it later adopts, (2) reasonable reliance by the other party, and (3) injury to the  
 latter resulting from the former's repudiation of its prior conduct. *Valencia Energy* at 567-77. The Company further  
 argues that equitable estoppel may be maintained against a governmental entity as long as its application "will not  
 substantially and adversely affect the exercise of governmental powers," citing to *Valencia Energy* at 576-78.

27 <sup>165</sup> Council Reply Br. at 8, citing to Phase I Tr. at 377-78.

28 <sup>166</sup> Council Reply Br. at 8, citing to Phase I Tr. at 359.

<sup>167</sup> Council Reply Br. at 8, citing to Phase I Tr. at 353, 281-82, 285-86.

<sup>168</sup> Council Reply Br. at 8.

The Company asserts that the refund payments provided for in the Infrastructure Agreement are reasonable, and that there is no evidence to suggest that the plant is not prudent.<sup>169</sup> Arizona-American contends that the Pulte refund payments, which represent its reasonable investment in used and useful plant, should be allowed in rate base.<sup>170</sup> The Company states that the Anthem system was an expensive one to build, serving a unique community located in a relatively less populated area well to the north of Phoenix.<sup>171</sup> The Company points to the fact that both RUCO and Staff recognize that all the plant is used and useful, and that its infrastructure costs are a legitimate cost of service that should be recovered.<sup>172</sup>

RUCO believes that by having allowed the Company to recover eligible refunds in past Decisions, the Commission has sent the message that the Commission approves of the Company's recovery of the refunds, and it would therefore be unfair to deny recovery of the refunds now.<sup>173</sup> RUCO states that there is no evidence in the record questioning the reasonableness of the repayment amounts; and nothing in the record alleging that the assets built by the Pulte funds are not used and useful.<sup>174</sup> RUCO contends that for the Commission to change its direction on the recovery of refunds, some of which it has already allowed, would be unfair as a matter of equity.<sup>175</sup>

#### d. Analysis

In Decision No. 73072, we stated that our determination in that case was not intended to have any bearing on our determination in any subsequent case filed by the Company for the Anthem districts regarding the reasonableness of the Company's agreement to refund to Pulte almost all of the costs required to construct Anthem's infrastructure.<sup>176</sup> In that case, the Council recommended that in order to lessen the rate impacts of the remaining Pulte payments, the Company be required to file its next rate case for the districts prior to refunding the last 25 percent of the reduced true-up

<sup>169</sup> Co. Reply Br. at 14.

<sup>170</sup> *Id.*

<sup>171</sup> *Id.*

<sup>172</sup> *Id.*

<sup>173</sup> RUCO Br. at 41.

<sup>174</sup> RUCO Reply Br. at 16.

<sup>175</sup> *Id.*

<sup>176</sup> Decision No. 73072 at 43.

1 payment that the Company had negotiated with Pulte in the Fourth Amendment.<sup>177</sup> Decision No.  
2 73072 adopted the Council's suggestion, and the Company has complied with the Decision.

3  
4 The Council now urges that any portion of the disputed refund payments that has not been  
5 shown by Arizona-American to be reasonable and proper should be permanently excluded from rate  
6 base and denied any rate base recognition. However, we can find no evidence in the record of this  
7 proceeding that the refund payments, which paid for infrastructure that is used and useful and  
8 necessary in the provision of service to the districts, were not reasonable and proper. No party  
9 disputed the fact that the Anthem system was an expensive one to build, that all the plant is used and  
10 useful, and that the infrastructure costs are a legitimate cost of service. No party disputed the  
11 evidence that Arizona-American refunded to Pulte approximately 71 percent of Pulte's total  
12 investment in the Anthem water and wastewater infrastructure and that when interest is factored in,  
13 the amount of reimbursement drops to only approximately 55 percent.

14 In Decision No. 64897, the Commission recognized that the Infrastructure Agreement  
15 contained unequal refunding structures, cost caps, priority services, and penalties that may be  
16 inconsistent with the Commission's standards.<sup>178</sup> While there was significant dispute in this  
17 proceeding regarding whether the Infrastructure Agreement required Commission approval, no party  
18 has demonstrated that any elements of the Infrastructure Agreement which led the Commission to  
19 decline to approve it on several occasions were actually, in practice, unreasonable or improper.

20 The record evidence does not support a disallowance of Arizona-American's prudently made  
21 equity investments in the infrastructure required to provide reasonable and adequate water and  
22 wastewater utility service to the Anthem districts. In conformance with the fundamental ratemaking  
23 principle that a public utility must be allowed an opportunity to earn a reasonable return on its  
24 prudent investments, the equity investment that the Company made in the Anthem districts'  
25 infrastructure in the form of advance refunds will be allowed in rate base.

26 However, the public interest requires us to consider the risk-shifting effects of the  
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28 <sup>177</sup> See Decision No. 70372 at 40, citing to the Council's suggestion in its Reply Brief.

<sup>178</sup> Decision No. 64897 at 6.



1 infrastructure agreement, which has resulted in the Company shifting to ratepayers the risks related  
 2 to the costs of the infrastructure agreement and the timing of the balloon payments. This risk-  
 3 shifting justifies a lower cost of capital, as discussed in the cost of capital section of this Order.

4 **4. Proposed "Phase-In" Plans**

5 **a. Council's Phase-In Proposals**

6 The Council urges that if the refund payments are recognized, that a phase-in plan should be  
 7 adopted in regard to the water and wastewater plant associated with the 2007 and 2008 Pulte  
 8 refunds.<sup>179</sup> The Council argues that a phase-in plan is appropriate considering the controversy  
 9 surrounding the refund payments, the need to mitigate rate shock for Anthem ratepayers, and  
 10 because Arizona-American benefitted from the interest-free use of the plant financed with AIAC for  
 11 many years.<sup>180</sup>

12 Under the Council's proposed "ratable plant transfer plan," water and wastewater plant and  
 13 related accumulated depreciation associated with the 2007 and 2008 Pulte refunds would be  
 14 removed from plant in service for purposes of ratemaking in this proceeding.<sup>181</sup> The Company  
 15 would be required to file future rate cases to recover the transferred amounts in rates.<sup>182</sup> The net  
 16 plant would be "parked" or deferred as plant held for future use and then transferred into plant in  
 17 service ratably over the five year period of 2009 through 2013, with the transfer of 40 percent or \$8  
 18 million of the aggregate 2007 and 2008 Pulte refunds to plant in 2010, conceivably allowing the  
 19 Company to earn a return on that portion of the 2007 and 2008 Pulte refunds by the year 2012,  
 20 depending on rate case timing.<sup>183</sup> Under the ratable plant transfer plan, 80 percent or \$16 million of  
 21 the aggregate 2007 and 2008 refunds would become eligible for ratemaking recognition by the end  
 22 of 2012, thereby enabling the Company to be earning a return on the bulk of the 2007 and 2008  
 23 Pulte refunds by the year 2014, depending on rate case timing.<sup>184</sup> The Council explains that the

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 25 <sup>179</sup> Council Br. at 9; Council Reply Br. at 8-9.

26 <sup>180</sup> Council Reply Br. at 13.

27 <sup>181</sup> Council Br. at 9.

28 <sup>182</sup> Direct Testimony of Council witness Dan Neidlinger Exh. Anthem-1; Exh. A-45 at 2-3.

<sup>183</sup> Council Br. at 9, citing to Direct Testimony of Council witness Dan Neidlinger (Exh. Anthem-1) at 4; Surrebutial  
 Testimony of Council witness Dan Neidlinger (Exh. Anthem-3) at 3.

<sup>184</sup> Council Br. at 9.

2010 Pulte refund would be accorded the same treatment under the plan, but transferred to plant in service over the five year period of 2011 through 2015, and that depreciation on all the refunds would be stayed as reclassified to plant in service.<sup>185</sup> The Council explained that for accounting purposes, since the AIAC was used to fund infrastructure recorded in many separate plant accounts, it believes the most efficient accounting would be the establishment of two contra control plant accounts: one for gross utility plant and one for accumulated depreciation, and that the offsetting entries for both gross plant and accumulated depreciation would be recorded in separate plant held for future use accounts.<sup>186</sup> Accumulated depreciation would be based on overall accumulated depreciation percentages at December 31, 2008, at 14.93 percent for water plant and 17.38 percent for wastewater plant.<sup>187</sup>

The Company believes that the Council's phase-in proposal would be subject to Accounting Standards Codification ("ASC") 980-340 (formerly Statement of Financial Accounting Standards ("SFAS") 92) pertaining to Phase-In Plans and ASC 980-360 (formerly SFAS 90) pertaining to Plant Disallowances,<sup>188</sup> and that in accordance with those accounting guidelines, the phase-in proposal would require a substantial write off of the plant, resulting in severe financial consequences for the Company.<sup>189</sup>

The Council disagrees. The Council argues that because under Mr. Neidlinger's plan Arizona-American can eventually recover all the costs of the Anthem plant associated with the 2007 and 2008 refunds, it is not probable that part of the cost of the plant will be disallowed for ratemaking purposes, and therefore the Company's asserted SFAS 90 concerns do not apply.<sup>190</sup> The Council's witness Mr. Arndt testified to his belief that SFAS 92 is not an impediment to the Commission's adoption of Mr. Neidlinger's ratable transfer plan, and that SFAS 90 does not address refunds relating to prior AIACs.<sup>191</sup> In the opinion of the Council's witness, because Arizona-

<sup>185</sup> Council Br. at 9, citing to Direct Testimony of Council witness Dan Neidlinger (Exh. Anthem-1) at 4.

<sup>186</sup> Council Br. at 9.

<sup>187</sup> *Id.* at 9-10, citing to Direct Testimony of Council witness Dan Neidlinger (Exh. Anthem-1) at 4-5.

<sup>188</sup> Redacted Testimony of Company witness James Jenkins (Exh. A-45) at 1, 3.

<sup>189</sup> Phase I Tr. at 18.

<sup>190</sup> Council Reply Br. at 10.

<sup>191</sup> Co. Br. at 11, citing to Direct Testimony of Council witness Michael L. Arndt (Exh. Anthem-13) at 6, 7-8.

1 American has not abandoned any water or wastewater plant in this case, and Mr. Neidlinger's  
 2 ratable plant transfer proposal does not contemplate or require a disallowance of utility plant, SFAS  
 3 90 does not apply.<sup>192</sup> Mr. Arndt also opined that for purposes of the American Water's consolidated  
 4 financial statements, any adjustment that Arizona-American elected as a result of a phase-in plan  
 5 could be supported by disclosure notes explaining the Commission's adoption of the ratable transfer  
 6 plan, and that "[i]f properly reported, the notes would not suggest that the Commission had  
 7 'disallowed' the 2008 \$20.2 million refund payment to Pulte Homes, nor would the plant be  
 8 characterized as 'abandoned.'"<sup>193</sup> Mr. Neidlinger testified that SFAS 92 is not applicable in this  
 9 case because the amount of plant involved is not material to American Water's consolidated plant  
 10 balance.<sup>194</sup>

11 The Council states that as an alternative to its proposed ratable plant transfer plan, the  
 12 Commission could allow Arizona-American to include the full amount of the 2008 refund in rate  
 13 base, but order a phase-in of recognition of the rate of return on it, beginning with this case.<sup>195</sup> The  
 14 Council argues that this approach would allow the Company to realize an immediate return on its  
 15 Anthem plant investments while recognizing that it has benefitted from the interest-free use of plant  
 16 financed with AIAC for many years.<sup>196</sup>

#### 17 b. Company's Response

18 The Company opposes both the Council's phase-in proposals. In regard to the alternate  
 19 proposal, the Company contends that the Council's argument that the Company has enjoyed  
 20 "interest free use of the plant financed with AIAC for many years" ignores the fact that the use of  
 21 AIAC to fund the plant has allowed the Anthem community to enjoy interest-free use of this plant  
 22 since 1998 without full recognition of the used and useful plant in rate base.<sup>197</sup>

23 In regard to the Council's proposed ratable plant transfer plan, the Company's witness Mr.  
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25  
 26 <sup>192</sup> Direct Testimony of Council witness Michael L. Arndt (Exh. Anthem-13) at 9.

<sup>193</sup> *Id.* at 9-10.

<sup>194</sup> Phase I Tr. at 846-48.

<sup>195</sup> Council Br. at 12.

<sup>196</sup> *Id.*

<sup>197</sup> Co. Reply Br. at 8.

James Jenkins, who is the Company's Vice President, Finance for American Water's Western Division, testified that he is not aware of a phase-in plan of the type proposed by the Council being approved by any Commission in any state in which American Water's affiliates operate.<sup>198</sup> As stated above, the Company believes that the Council's phase-in proposal would be subject to ASC 980-340 (formerly SFAS 92) pertaining to Phase-In Plans and ASC 980-360 (formerly SFAS 90) pertaining to Plant Disallowances,<sup>199</sup> and that in accordance with those accounting guidelines, the phase-in proposal would require a substantial write off of the plant, and would result in severe financial consequences for the Company.<sup>200</sup>

The Company contends that the testimony of the Council's witness Mr. Neidlinger on the accounting implications of the Council's phase-in plan was not credible, because as Mr. Neidlinger conceded, he has no direct experience in applying FAS 92, has not addressed the issue in the role of an auditor, and has never advised any public utilities with regard to the application of FAS 92.<sup>201</sup> In regard to the testimony of the Council's witnesses Mr. Arndt on the accounting implications of the Council's phase-in plan, the Company contends that his testimony was also not credible, because despite the clear language of the accounting guidelines relied upon by the Company's witness Mr. Jenkins,<sup>202</sup> Mr. Arndt testified that the accounting provisions do not apply to plant constructed after 1988, or to water or wastewater utilities.<sup>203</sup> The Company argues that ultimately, however, the most telling evidence is that both Mr. Neidlinger and Mr. Arndt conceded that it is the Company that would make the decision regarding the accounting treatment of the Council's phase-in proposal.<sup>204</sup>

The Company states that putting aside the accounting implications of the Council's proposed phase-in plan, the fundamental effect of the plan would be to deny the Company a return on and of its investment, in violation of the law.<sup>205</sup> The Company argues that the Council's phase-in plan does

<sup>198</sup> Phase I Tr. at 515-16.

<sup>199</sup> Redacted Testimony of Company witness James Jenkins (Exh. A-45) at 1, 3.

<sup>200</sup> Phase I Tr. at 18.

<sup>201</sup> Co. Br. at 18, citing to Phase I Tr. at 882-83.

<sup>202</sup> Co. Br. at 18, citing to Exh. A-46 at ¶ 4 (describing application of FAS 92).

<sup>203</sup> Co. Br. at 18, citing to Direct Testimony of Council witness Michael Arndt (Exh. Anthem-13) at 6-7; Phase II Tr. at 610-18; Exh. A-46.

<sup>204</sup> Co. Br. at 18, citing to Phase II Tr. at 622-23 and Phase I Tr. at 888.

<sup>205</sup> Co. Br. at 19.

not recommend applying any carrying costs and would not make the Company whole in the present value sense, and that given the Company's current financial position, it cannot agree to a phase-in of plant as proposed by the Council, or any phase-in plan that delays its authorized revenue increase.<sup>206</sup>

The Company states that any type of phase-in plan would require the Company to forego revenue on plant that the Commission has found to be in rate base.<sup>207</sup> The Company states that as RUCO's witness testified, phase-in plans ultimately have a detrimental effect on ratepayers, as the Company is entitled to receive its authorized revenue at a later date, which results in higher rates following the phase-in.<sup>208</sup>

c. RUCO's Withdrawal of its Alternate Phase-In Proposal

On October 1, 2010, RUCO docketed a Notice of Filing Withdrawal of Phase-In Proposal. In its Closing Brief, RUCO expressed concerns about the impact on the Anthem ratepayers that would result should the Commission allow full and immediate recovery of the Pulte refunds, and had proposed an alternate phase-in rate design proposal, which would allow for recovery of the refunds over a ten year period of time.<sup>209</sup> Staff, in its Reply Brief, stated that conceptually it did not have a problem with most aspects of the RUCO proposal, but that in the event the Commission decided to adopt it, Staff recommended several changes.<sup>210</sup> Staff pointed out several critical issues the proposal had not addressed.<sup>211</sup>

RUCO stated in its October 1, 2010 filing that in making its alternate phase-in rate design proposal, RUCO initially believed it would provide a rate design option that would ameliorate the impact of the rate increase for Anthem customers. RUCO explained in its filing that subsequent to filing its Closing Brief, RUCO invited interested parties to go over the relevant numbers, and that during the course of those meetings, it became apparent to RUCO that due to carrying costs and other costs that allow the Company full recovery of its revenue requirement, no version of RUCO's

<sup>206</sup> Co. Br. at 19.

<sup>207</sup> *Id.*, citing to Rate Design Direct Testimony of RUCO witness Rodney Moore (Exh. R-13) at 5; Phase II Tr. at 728-29.

<sup>208</sup> Co. Br. at 19, citing to Phase II Tr. at 729-30.

<sup>209</sup> RUCO Br. at 41-43.

<sup>210</sup> Staff Reply Br. at 8-9.

<sup>211</sup> *Id.* at 9.

proposal, or modification to it, would actually result in a rate design more beneficial to Anthem ratepayers than RUCO's stand-alone rate design. RUCO stated that it withdraws its alternate phase-in proposal for that reason.

d. Staff's Position

Staff does not support the Council's proposal to phase-in the refunds to rate base over time.<sup>212</sup> Staff states that it does not support the proposal because the record is not clear what impacts it would have on the Company and what accounting treatment it would necessitate.<sup>213</sup> Staff stated that while the Council disagrees with the Company's position regarding SFAS 92 pertaining to Phase-In Plans and SFAS 90 pertaining to Plant Disallowances, in the end it is ultimately the Company and its auditors that must make the determination, and therefore, the Council's opinion may be of little import in the matter.<sup>214</sup>

e. Analysis

In its Reply Brief, the Council disputes the Company's claim that severe financial consequences would result if the Company elects to write off the 2007 and 2008 refunds, charging that the claims are "exaggerated and unsubstantiated" because in 2009, the Company recorded positive net income; that in 2009, the Company indicated that it had sufficient revenue to cover its expected debt service payments; and because the Company is wholly-owned by the largest investor-owned water and wastewater utility in the United States.<sup>215</sup> While the Council argues that a phase-in plan is appropriate considering the controversy surrounding the refund payments, the need to mitigate rate shock for Anthem ratepayers, and the fact that Arizona-American benefitted from the interest-free use of the plant financed with AIAC for many years, the Council's arguments fail to address how the phase-in will allow the Company an opportunity to earn a return on and of its equity investment in the used and useful plant necessary to provide reasonable and adequate service to the Anthem districts. The Council's arguments also fail to take into account the fact that the Company's

<sup>212</sup> Staff Reply Br. at 6.

<sup>213</sup> *Id.*

<sup>214</sup> Staff Reply Br. at 6-7.

<sup>215</sup> Council Reply Br. at 10.

1 use of AIAC to fund the plant has allowed the Anthem districts to enjoy interest-free use of the  
2 AIAC-funded used and useful plant for many years, without full recognition of that plant in rates.

3 As RUCO recognized in withdrawing its well-considered phase-in plan, such plans  
4 ultimately have a detrimental effect on ratepayers, because ratemaking principles require that  
5 utilities receive authorized revenue at a later date. Unless a utility voluntarily agrees to forego its  
6 authorized revenues, phase-in plans ultimately result in higher rates following the phase-in, due to  
7 the need for recovery of carrying costs that allow the Company full recovery of its revenue  
8 requirement. The Company has not agreed to forego authorized revenues in this proceeding. After  
9 careful consideration, RUCO determined that no version of RUCO's proposal, or modification to it,  
10 would actually result in a rate design more beneficial to Anthem ratepayers than RUCO's stand-  
11 alone rate design. For the same reasons, we must decline to approve the Council's phase-in  
12 proposals.

13 f. Open Meeting Agreement

14 The Company, the Council, RUCO and Staff met during a recess from the Open Meeting to  
15 discuss possible resolution to a phase-in proposal and other issues. The aforementioned parties  
16 agreed to the following:

17 Phase-in:

- 18 1) Three year phase-in of revenue requirement based on the 2007 and 2008 Pulte refund  
19 payments for both water and wastewater (as set forth in item 2).
- 20 2) As compared to the authorized revenues in the Recommended Opinion and Order,  
21 Anthem Water district revenues are reduced by a total of \$2.342 million as follows:
- 22 a. In 2011 the revenue requirement is reduced \$1.561 million.
- 23 b. In 2012 the revenue requirement is reduced \$0.781 million.
- 24 c. In 2013 revenues equal the authorized revenues.
- 25 3) There is no recovery of the carrying costs associated with the reduced revenues.
- 26 4) There is no recovery of the foregone reduced revenues.
- 27 5) The 2007 and 2008 Pulte refunds are included in rate base in the overall authorized  
28 revenue requirement in the Recommended Opinion and Order.

- 6) The 2012 and 2013 revenue increases associated with the phase-in are implemented automatically effective January 1 of each year without further Commission action.

### Other Matters

- 7) The overall revenue requirement is based on a 6.70 percent rate of return (as per Mayes Proposed Amendment #1)
- 8) Initiation of Anthem/Agua Fria Deconsolidation proceeding (as per Pierce Amendment # 1)
- a. Company to file initial application no later than April 11, 2011.
- 9) The Anthem/Agua Fria Wastewater district winter average residential sewer rate is not implemented until June 1, 2012. Prior to June 1, 2012, the Company's existing rate design for this tariff shall continue, but be increased based on the percentage increase in the authorized revenue requirement.
- 10) Add language to Exhibit A of Recommended Opinion and Order to reflect, "Each residential customer will be billed based on that customer's average water usage for the months of January, February, and March."
- 11) Support Hearing Division Amendment #2.
- 12) This will be full and complete resolution of the 2007 and 2008 Pulte refunds and there is no need for further Commission proceedings on this issue.
- 13) As contemplated in the Recommended Opinion and Order, the parties agree the new rates are effective January 1, 2011.
- 14) The Company will immediately file supporting schedules.

We find this resolution reasonable and it appropriately balances the interest of ratepayers and shareholders. We therefore adopt this Agreement.

### **G. Fair Value Rate Base Summary**

The Company did not prepare schedules showing the elements of Reconstruction Cost New Rate Base ("RCNB"),<sup>216</sup> and thereby waived a determination of the fair value of its property using an RCNB valuation. Therefore, the Original Cost Rate Base ("OCRB") and the Fair Value Rate Base ("FVRB") for the districts are the same for purposes of this application. Based on the

<sup>216</sup> Direct Testimony of Company witness Linda Gutowski (Exh. A-17) at 2.



discussion of rate base issues set forth above, we find the FVRB for each district to be as follows:

Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
\$57,249,836	\$28,188,865	\$45,116,927	\$15,489,997	\$18,096,538

#### IV. OPERATING INCOME

##### A. Proposed Test Year Operating Income

The parties propose adjusted test year operating income by district as follows:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Company	\$528,986	\$898,210	\$67,162	\$(67,374)	\$397,489
Staff	\$545,925	\$906,189	\$210,381	\$65,615	\$404,542
RUCO	\$684,046	\$1,371,776	\$16,411	\$75,904	\$763,200

##### B. Test Year Revenues

Adjusted test year revenues were not contested, and are as follows by district:

Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
\$7,492,744	\$9,283,101	\$8,637,123	\$5,940,381	\$5,661,710

##### C. Test Year Operating Expenses

The parties propose adjusted test year operating expenses by district as follows:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Company	\$6,963,758	\$8,384,892	\$8,569,840	\$6,008,401	\$5,264,220
Staff	\$6,946,819	\$8,376,912	\$8,426,742	\$5,874,766	\$5,257,168
RUCO	\$6,808,685	\$7,911,325	\$8,620,712	\$5,864,477	\$4,898,510

The parties were able to resolve many disputed operating expense issues. Issues remaining in dispute are addressed below.

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I. Pension Expense (All Districts)

By district, the parties' final schedules show the following recommended amounts for test year pension expense:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Company	\$119,955	\$269,873	\$240,306	\$86,994	\$159,930
Staff	\$119,955	\$269,873	\$240,306	\$64,196*	\$159,931
RUCO	\$48,320	\$115,594	\$115,351	\$38,661	\$75,664

\*With the correction of a computational error in Staff's final schedules, Staff's recommendation is \$86,994.

The Company utilized 2009 ERISA based pension expense amounts, totaling approximately \$2.09 million, as the most appropriate known and measurable calculation of this expense item.<sup>217</sup> The Company states that its 2009 pension expense is known and measurable and reflects its actual expense, based on the Company's minimum contributions required by law.<sup>218</sup> The Company asserts that its actual pension expense remained high in 2010 and that the Company expects pension expense to continue to increase in the near future, and remain at levels near the current level thereafter.<sup>219</sup>

RUCO states that the Company's 2009 pension expense amount is abnormally high whether it is measured under ERISA or FAS 87 accounting method, and recommends that recovery based on 2009 amounts be denied.<sup>220</sup> RUCO advocates that instead of using the 2009 ERISA amount of pension expense, that the Company's pension expense be based instead on the 2008 test year FAS 87 amount of \$958,949.<sup>221</sup> RUCO asserts that the ERISA method of accounting for pension expense

<sup>217</sup> Co. Reply Br. at 15, citing to Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 10 and Rebuttal Testimony of Company witness Miles Kiger (Exh. A-14) at 14-15.

<sup>218</sup> Phase I Tr. at 137-38; Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 10.

<sup>219</sup> Co. Br. at 27, citing to Exh. A-25. Exh. A-25, provided at the hearing, shows the Company's projected ERISA based minimum contributions to be as follows:

Actual 2010 Contribution	Projected 2011 Minimum Contribution	Projected 2012 Minimum Contribution	Projected 2013 Minimum Contribution	Projected 2014 Minimum Contribution
\$2.062M	\$2.591M	\$2.794M	\$2.147M	\$2.034M

<sup>220</sup> RUCO Br. at 17.

<sup>221</sup> *Id.* at 14.

1 provides for a wide amount of management discretion on how to fund the plan each year, and that  
 2 FAS 87 provides for funding amounts that are consistent with GAAP.<sup>222</sup> RUCO argues that use of  
 3 FAS 87 accounting for pension expense is appropriate because it is the pension expense accounting  
 4 method used by American Water.<sup>223</sup>

5  
 6 The Company responds that while its management does have some discretion in relation to  
 7 pension funding, it does not have discretion to fund at levels below the minimum ERISA based  
 8 amounts.<sup>224</sup> The Company objects to RUCO's recommendation to use of a FAS 87 based amount of  
 9 pension expense, because for ratemaking purposes, the Company is ERISA based in its accounting  
 10 for pension expense.<sup>225</sup> The Company states that it is not seeking to transition to FAS 87 accounting  
 11 in this case, but that if the Commission wishes it to transition to FAS 87 as recommended by RUCO,  
 12 then it would be necessary for the Commission to order the Company to use FAS 87, and to identify  
 13 the specific FAS 87 amount for ratemaking purposes.<sup>226</sup> The Company explained that in the event it  
 14 is ordered to transition from ERISA to FAS 87, the Company would request recovery of the  
 15 accumulated difference between FAS 87 based and ERISA based accounting for pension expense  
 16 that is on the Company's books, and that the amounts be amortized over a period of five years.<sup>227</sup>  
 17 The Company's witness noted that because FAS 87 amounts have historically exceeded ERISA  
 18 amounts, the Company has regulatory assets on its balance sheet in two accounts for the  
 19 accumulated amounts by which FAS 87 has exceeded ERISA, and that the balances of the two  
 20 accounts as of February 28, 2010 were \$746,347 for Deferred Service Company Pension Cost and  
 21 \$1,050,173 for Deferred Pension Cost for Arizona-American employees.<sup>228</sup>

22 RUCO is opposed to amortization of the regulatory assets that would result from a transition  
 23 from ERISA based pension expense recognition to FAS 87 based pension expense recognition  
 24 because the Company has not previously requested authority for such a deferral.<sup>229</sup>

25 <sup>222</sup> *Id.* at 16, citing to Phase I Tr. at 919.

26 <sup>223</sup> RUCO Reply Br. at 8, citing to Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 82.

27 <sup>224</sup> Phase I Tr. at 137-38; Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 10.

28 <sup>225</sup> Co. Br. at 28, citing to Phase I Tr. at 139-40.

<sup>226</sup> Co. Br. at 29, citing to Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 13.

<sup>227</sup> Co. Br. at 29, citing to Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 14-15.

<sup>228</sup> Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 12.

<sup>229</sup> RUCO Br. at 18-20.

1 Consistent with Staff's recommended treatment of pension expense in the Company's prior  
 2 rate case, Staff proposes no adjustment to the Company's pension expense request.<sup>230</sup> In regard to  
 3 RUCO's recommendation to use FAS 87 amounts, Staff expressed concern that a full record  
 4 regarding the costs to transition from ERISA to FAS 87 has not been developed.<sup>231</sup>

5  
 6 The dramatic increase in pension expense experienced by the Company is a result of market  
 7 forces outside the Company's control. While RUCO alleges in its Reply Brief that the Company  
 8 designed its pension plan poorly, that the plan has been underfunded for years, and that it is tied to a  
 9 market that has been subject to abnormal conditions over the past several years,<sup>232</sup> RUCO did not  
 10 point to any evidence supporting the allegations regarding plan design or underfunding, and  
 11 RUCO's witness testified that "the really poor market performance in 2008 . . . affected just about  
 12 any kind of investment."<sup>233</sup> We do not disagree with RUCO that the Company's management has  
 13 discretion in relation to ERISA pension funding. However, as the Company states, it does not have  
 14 discretion to fund at levels below the minimum ERISA based amounts for which it is seeking  
 15 recovery. As acknowledged by RUCO, the Company changed its plan from a defined-benefit plan  
 16 to a defined-contribution plan beginning January 1, 2006, which RUCO's witness agreed is a  
 17 reasonable way to provide retirement benefits.<sup>234</sup> The pension expense recovery requested by the  
 18 Company in this proceeding is based on minimum funding required by law, and the record  
 19 demonstrates that Company's qualified plan contributions are projected to annually rise above 2009  
 20 levels through the year 2013 before moving back to the current expense level in 2014. RUCO's  
 21 recommendation that recovery of the Company's pension expenses be based on 2008 FAS 87  
 22 amounts, which are less than half of the known and measurable 2009 minimum ERISA amounts  
 23 accepted by Staff, would lead to under-recovery of a known and measurable expense. The 2009  
 24 ERISA amounts are known and measurable actual expenses incurred by the Company, and based on  
 25 the evidence presented, reflect a reasonable level of expenses.

26 <sup>230</sup> Staff Reply Br. at 4.

27 <sup>231</sup> *Id.*

28 <sup>232</sup> RUCO Reply Br. at 8.

<sup>233</sup> Phase I Tr. at 973.

<sup>234</sup> RUCO Br. at 16 citing to Phase I Tr. at 982.

We find that the pension expense amounts proposed by the Company and accepted by Staff are known and measurable. Because they more accurately reflect the Company's actual operating expense on a going-forward basis than the amounts advocated by RUCO, they will be adopted.

2. Normalization of Other Post-Employment Benefit Expenses (All Districts)

As with pension expense, the Company proposes other post-employment benefit ("OPEB") expense based on known and measurable actual 2009 expense levels. The Company's witness testified that the larger than typical 22 percent pro forma increase to the test year level of employee benefits expense was driven by increased funding obligations due to the severe deterioration in financial markets.<sup>235</sup> As with pension expenses, the Company expects OPEB expenses to remain at a higher level in the future and believes that the adjustment to reflect actual 2009 OPEB expense for its employees and Service Company employees is appropriate.<sup>236</sup>

Instead of the pro forma adjustments to recognize known and measurable increases in OPEB expenses, RUCO proposes adjustments normalizing the OPEB expense using an average of 2007-2008 expenses, for a reduction of \$296,761 spread across the districts in this case.<sup>237</sup> RUCO states that it proposed the adjustments because the OPEB expense, like the Company's pension expense, has been affected by investment market conditions, though not as egregiously.<sup>238</sup> RUCO argues that ratepayers should not be responsible for unusually high expenses incurred outside of a test year which were the result of unprecedented market conditions.<sup>239</sup>

Staff did not propose any similar adjustments.

The Company states that the same reasoning that supports the Company's pension expense figures also support recovery of the Company's increased cost for OPEB expense.<sup>240</sup>

RUCO's recommendation that recovery of the Company's OPEB expenses be normalized

<sup>235</sup> Direct Testimony of Company witness Sheryl Hubbard (Exh. A-16) at 15.

<sup>236</sup> *Id.*

<sup>237</sup> RUCO Br. at 20-21, citing to Surrebutal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 81-82; RUCO Br. at 24-26, citing to Surrebutal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 95; RUCO Br. at 29, citing to Surrebutal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 99 (\$7,206 of RUCO's proposed adjustments are based on a three year average of 2006-2008 expenses).

<sup>238</sup> RUCO Br. at 20-21, citing to Surrebutal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 82.

<sup>239</sup> RUCO Br. at 25.

<sup>240</sup> Co. Br. at 30.

1 based on past years, which are known to be unrepresentative of demonstrated cost levels on a going-  
 2 forward basis, would lead to under-recovery of a known and measurable expense. While it is  
 3 lamentable that market conditions have led to the increased costs, the 2009 OPEB amounts are  
 4 known and measurable actual expenses incurred by the Company, and based on the evidence  
 5 presented, reflect a reasonable level of expenses.

6  
 7 We find that the OPEB amounts for direct employees and Service Company employees  
 8 proposed by the Company and accepted by Staff are known and measurable. Because they more  
 9 accurately reflect the Company's actual operating expense on a going-forward basis than the  
 10 amounts advocated by RUCO, they will be adopted.

### 11 3. Annual Incentive Plan ("AIP") for Service Company Employees

12 The Company's request includes 70 percent of Arizona-American's Arizona Corporate  
 13 allocated AIP management fees expenses paid to the Service Company for the districts in this  
 14 proceeding.

15 RUCO proposes an adjustment that removes 100 percent of identifiable incentive  
 16 compensation expense included in the management fees the Company paid to the Service Company  
 17 during the test year.<sup>241</sup> Mr. Hansen believes that management fees bear far greater scrutiny; and  
 18 believes incentive bonuses should be disallowed; and that the Commission should also review its  
 19 policy on pensions.<sup>242</sup> RUCO's proposed adjustment would remove a total of \$265,853 in test year  
 20 operating expenses, spread across the districts in this case.<sup>243</sup> RUCO states that its recommendation  
 21 differs from the 30 percent disallowance for AIP compensation approved by the Commission in  
 22 Decision No. 71410 last year and Decision No. 68858 (July 28, 2006). RUCO supported the 30  
 23 percent disallowance in the prior cases.<sup>244</sup> RUCO now argues that its 100 percent proposed Service  
 24 Company disallowance in this case is appropriate because the award to the Service Company  
 25  
 26

27 <sup>241</sup> RUCO Br. at 26.

<sup>242</sup> Hansen Br. at 3.

<sup>243</sup> RUCO Br. at 28, citing to Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 96.

<sup>244</sup> RUCO Reply Br. at 10.

employees is dependent upon American Water operating income and corporate financial targets.<sup>245</sup> RUCO's witness testified that in the prior cases disallowing 30 percent, there was no distinction made between AIP expense for Arizona-American's employees and the AIP expense charged to Arizona-American by the Service Company for its employees.<sup>246</sup> RUCO argues that "Arizona ratepayers should not have to pay for incentive compensation that is tied to American Water Works corporate or non-jurisdictional and non-regulated income or on non-Arizona jurisdictional operations or non-regulated operations-based financial achievements."<sup>247</sup>

Staff did not make any adjustment.

The Company opposes RUCO's proposal to completely disallow AIP for Service Company employees. The Company argues that the Commission should not treat AIP costs for Service Company employees differently simply because these employees are employed by a different entity.<sup>248</sup> The Company states that as with AIP for direct employees, AIP is an important part of compensation for Service Company employees, which include many members of the Arizona-American team.<sup>249</sup> The Company points out that through its relationship with the Service Company, Arizona-American is able to take advantage of expertise and economies of scale.<sup>250</sup>

Arizona-American is supported not only by its own direct employees, but also by employees of the Service Company.<sup>251</sup> The evidence presented does not support a deviation from past practice to disallow 30 percent of all Arizona-American's AIP compensation expenses, including the Service Company employee-related AIP costs. In past cases, we have adopted a 30 percent disallowance of AIP costs in order to account for the portion of AIP based on the Company's financial performance. We declined to disallow any of the remaining AIP expenses because they are closely tied to salary expense.<sup>252</sup> We find that the 30 percent disallowance of all AIP costs continues to provide an

<sup>245</sup> RUCO Br. at 28 and RUCO Reply Br. at 10-11, both citing to Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 96.

<sup>246</sup> Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 96.

<sup>247</sup> RUCO Br. at 28.

<sup>248</sup> Co. Reply Br. at 18.

<sup>249</sup> Rebuttal Testimony of Company witness Paul Townsley (Exh. A-4) at 7.

<sup>250</sup> *Id.* at 8.

<sup>251</sup> *Id.*

<sup>252</sup> Decision No. 68858 at 20-21.

appropriate balance between ratepayers and shareholders, and it will again be adopted in this case.

#### 4. Management Fees Labor Expense (All Districts)

RUCO proposes an adjustment reducing Arizona-American's requested labor expense across the districts by \$89,678, which represents a 4 percent March 2009 pay increase for Service Company employees.<sup>253</sup>

The Company opposes RUCO's adjustment, stating that its requested expense allowance is based on a known and measurable increase like that accepted by RUCO and adopted by the Commission in the Company's prior rate cases and accepted by Staff in this case.<sup>254</sup>

Arizona-American is supported not only by its own direct employees, but also by employees of the Service Company.<sup>255</sup> We find that the salary expense proposed by the Company and accepted by Staff is based on actual known and measurable incurred expense. Because it more accurately reflects the Company's actual operating expense on a going-forward basis than the amount advocated by RUCO, it will be adopted.

#### 5. Rate Case Expense

The parties' proposed allowances for rate case expense, normalized over three years, are as follows, by district:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Company	\$51,989	\$69,395	\$68,439	\$40,277	\$34,388
Staff	\$51,989	\$69,395	\$68,439	\$40,277	\$34,388
RUCO	\$37,486	\$50,982	\$49,260	\$29,110	\$24,840

In calculating its rate case expense, the Company initially included an "estimated unrecovered portion of Commission-Approved rate case expenses from the last rate case" from its prior Anthem Water district and Anthem/Agua Fria Wastewater district rate cases.<sup>256</sup> As Staff stated

<sup>253</sup> Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 92.

<sup>254</sup> Co. Reply Br. at 18, citing to Phase I Tr. at 654 and Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 92.

<sup>255</sup> Rebuttal Testimony of Company witness Paul Townsley (Exh. A-4) at 8.

<sup>256</sup> Direct Testimony of Company witness Miles Kiger (Exh. A-13) at 10.



1 in its direct testimony, the Commission has adopted Staff's recommendations in prior proceedings  
 2 that rate case expense be normalized instead of amortized.<sup>257</sup> While amortized expenses are  
 3 permanent accounts that carry over from prior years, normalized expenses are operating income  
 4 accounts which are closed out each year and are not eligible for consideration in future rate cases.<sup>258</sup>  
 5 As RUCO points out, Decision No. 69440 (May 1, 2007) did not allow the Company's similar  
 6 request, because it contravened the ratemaking convention of setting rates at a normal recurring level  
 7 of expenses.<sup>259</sup> The Company has subsequently removed those amounts from its proposed  
 8 allowance for rate case expense.<sup>260</sup>

9  
 10 RUCO recommends that the Company's allowed rate case expense recovery in this case be  
 11 limited to an amount similar to that allowed in Decision No. 71410, the Company's previous rate  
 12 case.<sup>261</sup> RUCO argues that the costs sought by the Company are unreasonable and not supported by  
 13 the record.<sup>262</sup> RUCO asserts that the Company should not be compensated for the actual costs  
 14 incurred to send out the consolidation notice ordered prior to Phase II of the hearing, because the  
 15 Company could have reduced the mailing expense by including the notice as a bill insert.<sup>263</sup> RUCO  
 16 also alleges a "concern of double counting raised by charging for Company and affiliate labor cost  
 17 in rate case expense."<sup>264</sup>

18 Other than the removal of the "unrecovered costs," accepted by the Company, Staff proposed  
 19 no further adjustments to the Company's proposed rate case expense.<sup>265</sup>

20 The Company states that the direct accounting method the Company uses for Service  
 21 Company labor is efficient and eliminates the possibility of double counting,<sup>266</sup> and points out that  
 22 the separate mailing of additional notice regarding rate consolidation was ordered by the

23 <sup>257</sup> Direct Testimony of Staff witness Gerald Becker (Exh. S-9) at 20-21.

24 <sup>258</sup> See Direct Testimony of Staff witness Gerald Becker (Exh. S-9) at 20-21.

25 <sup>259</sup> Direct Testimony of RUCO witness Ralph Smith (Exh. R-9) at 36-37.

26 <sup>260</sup> Rebuttal Testimony of Company witness Miles Kiger (Exh. A-14) at 17.

27 <sup>261</sup> Direct Testimony of RUCO witness Ralph Smith (Exh. R-9) at 37; Surrebuttal Testimony of RUCO witness Ralph  
 28 Smith (Exh. R-10) at 46-47.

<sup>262</sup> RUCO Br. at 12.

<sup>263</sup> *Id.* at 12-13.

<sup>264</sup> *Id.* at 13, citing to Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 44.

<sup>265</sup> Staff Reply Br. at 4.

<sup>266</sup> Co. Reply Br. at 17, citing to Phase I Tr. at 142.

Commission.<sup>267</sup>

The hearing in this proceeding was extraordinary, with numerous parties, numerous witnesses and many issues. It required a great deal more time and expense than the prior case to which RUCO compares it. The normalized amount of rate case expense proposed by the Company and agreed to by Staff is reasonable, supported by the record, and will be allowed.

6. Non-Account Chemical Expense and Fuel and Power Expense Adjustment  
(Sun City Water)

In Decision No. 70351 (May 16, 2008), the most recent rate Decision for the Sun City Water district, the Commission ordered the Company to institute water loss reporting and to devise a water loss reduction plan if the Sun City Water district's water loss was greater than 10 percent at any time before its next rate case. Decision No. 70351 was based on a 2006 test year.

In this proceeding, Staff found that the Sun City Water district had water loss of 11.1 percent in the test year.<sup>268</sup> Staff recommends that the Company be required to reduce water loss in the Sun City Water district in PWS No. 07-099 to below 10 percent by December 31, 2010 or before it files its next rate case, CC&N, or financing application, whichever comes first. Staff further recommends that the Company continue tracking the water loss for PWS No. 07-099 for three years and submit the data collected every six months, with the first water loss tracking report for PWS No. 07-099 to be filed as a compliance item in this docket within 180 days of this Order.

Because water loss for the Sun City Water district exceeded 10 percent during the test year, Staff believes that the cost of purchased power and fuel and chemicals used to pump and treat water above the acceptable water loss threshold of 10 percent does not provide a benefit to ratepayers.<sup>269</sup> Staff recommends that these costs therefore be disallowed, and proposed an adjustment decreasing fuel and power expense by \$19,511, and chemicals expense by \$367.<sup>270</sup>

The Company does not object to the water loss tracking requirements recommended by Staff.

<sup>267</sup> Co. Reply Br. at 17, citing to page 10 of the Procedural Order issued in this docket on March 18, 2010.

<sup>268</sup> Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at Exhibit DMH-2, pp. 8-9.

<sup>269</sup> Staff Br. at 6-7.

<sup>270</sup> Direct Testimony of Staff witness Gerald Becker (Exh. S-9) at 31-32.

1 but opposes Staff's recommended expense disallowance.<sup>271</sup> The Company argues that Staff's  
 2 recommendation for the reduction to operating expenses fails to recognize the efforts Arizona-  
 3 American has undertaken to reduce water loss in all its districts.<sup>272</sup> The Company states that at the  
 4 time of the hearing, the Company had reduced water loss in the Sun City Water district to 8.31  
 5 percent,<sup>273</sup> and that it has complied with the requirements of Decision No. 70351.<sup>274</sup> The Company  
 6 argues that due to its efforts, it should not be penalized by an expense disallowance.<sup>275</sup>

7  
 8 There is no dispute that the Company has undertaken measures to reduce water loss since  
 9 the issuance of Decision No. 70351 in 2008. However, the 11.1 percent water loss existed during  
 10 the 2008 test year, and the water loss problem had been ongoing since the prior test year of 2006,  
 11 during which the Sun City Water district was already experiencing a water loss of 10 percent. By  
 12 2008, the test year for this case, instead of correcting the district's water loss, the Company had  
 13 allowed it to increase to 11.1 percent. We agree with Staff that the Sun City Water district's  
 14 customers should not be burdened with fuel and power and chemical expenses to treat the excess  
 15 lost water over 10 percent. Staff's reporting requirements and expense disallowance  
 16 recommendations are reasonable and will be adopted.

#### 17 7. Bad Debt Expense

18 The Company and Staff agreed that bad debt expense should be normalized based on the  
 19 Company's three year experience.<sup>276</sup> However, Staff disagrees with the Company's calculation of  
 20 bad debt expense, and recommends that its calculation of allowable expense be adopted instead.<sup>277</sup>  
 21 Staff asserts that the Company calculated the bad debt expense based on net write-offs without  
 22 giving consideration to the accrued provision.<sup>278</sup> Staff argues that the Company's proposed  
 23 methodology for computing bad debt expense departs from the two established methodologies for

24 <sup>271</sup> Co. Br. at 17; Co. Reply Br. at 7.

25 <sup>272</sup> Co. Br. at 16; Co. Reply Br. at 6.

26 <sup>273</sup> Co. Reply Br. at 6, citing to Direct Testimony of Company witness Bradley Cole (Exh. A-23) at 17, Exh. A-26, and Phase I Tr. at 556.

27 <sup>274</sup> Co. Reply Br. at 7-8.

28 <sup>275</sup> *Id.* at 7.

<sup>276</sup> Staff Br. at 5.

<sup>277</sup> *Id.* at 5.

<sup>278</sup> *Id.* at 6.

treating uncollectible accounts: (1) the direct charge-off method under which uncollectibles and any associated, subsequent recoveries are recorded directly, or "charged off" to bad debt expense; and (2) the allowance method by which a company systematically records expense to bad debt expense with an offset to an allowance for doubtful accounts, and by which, unlike the charge-off method, the charge offs and any subsequent recoveries are then made to the allowance for doubtful accounts account, rather than to the bad debt expense account.<sup>279</sup> According to Staff, the Company used a kind of hybrid method in this case whereby its charge-offs, as well as its systematic provision for bad debts, were both reflected in the bad debt expense account.<sup>280</sup>

The Company did not brief the issue. Staff's recommended bad debt expense amounts, which correct the Company's erroneous calculations, are reasonable and will be adopted.

#### 8. Tank Maintenance Expense (Sun City Water)

The Company requested approval to establish a tank maintenance reserve account to address ongoing tank maintenance requirements in its Sun City Water district.<sup>281</sup> In 2009, the Company commissioned a consultant to examine the condition of the tanks in the Sun City Water district and provide a recommendation for maintenance.<sup>282</sup> Based on the recommendation, the Company plans to commence a tank maintenance program for all the tanks in this district over the next fourteen years, beginning with those most in need of maintenance.<sup>283</sup>

Staff recommends that instead of establishment of a tank maintenance reserve account, the Company be authorized to include the known and measurable costs associated with tank maintenance as a normalized expense, in the amount of \$362,000.<sup>284</sup> Staff's witness testified that Staff supports the Company's planned program of regular tank maintenance because of the long term benefits that accrue to ratepayers by reducing long term capital costs.<sup>285</sup> The Company is in

<sup>279</sup> *Id.*

<sup>280</sup> *Id.*

<sup>281</sup> Direct Testimony of Company witness Bradley Cole (Exh. A-23) at 16.

<sup>282</sup> *Id.* at 15; Exh. A-35.

<sup>283</sup> Direct Testimony of Company witness Bradley Cole (Exh. A-23) at 16.

<sup>284</sup> Staff Br. at 6, citing to Phase I Tr. at 815, 962-963.

<sup>285</sup> Phase I Tr. at 815.

1 agreement with Staff's recommendation.<sup>286</sup>

2 RUCO opposes the establishment of a tank maintenance expense reserve fund, but did not  
3 object to the normalization adjustment proposed by Staff.<sup>287</sup>

4 We agree with RUCO and Staff that establishment of a tank maintenance expense reserve  
5 fund for the Sun City Water district is not appropriate at this time and will not authorize such an  
6 account. However the Company has demonstrated that it will begin, in the Sun City Water district, a  
7 program with demonstrated known and measurable ongoing expense amounts that are reasonable  
8 and will provide long term system benefits. Staff's recommendation for normalized tank  
9 maintenance expense is based on those demonstrated known and measurable ongoing expense  
10 amounts. The normalized expense amount recommended by Staff is reasonable and will be adopted  
11 for purposes of this proceeding.

12  
13 9. Tank Maintenance Deferral Account (Anthem Water)

14 The Company also requests authority to establish a deferral account to allow it to defer tank  
15 maintenance expenses for the Anthem Water district until the next rate case for the district, at which  
16 time the Company may seek recovery of the deferred amounts.<sup>288</sup> RUCO does not oppose the  
17 establishment of such a deferral account, as the Company already has such an account in place for  
18 the Sun City Water district.<sup>289</sup> We agree with the Company that establishment of such an account is  
19 appropriate, and find that it is reasonable and in the public interest to authorize the Company to  
20 establish a deferral account to allow it to defer tank maintenance expenses for the Anthem Water  
21 district until the next rate case for the district, at which time the Company may present evidence in  
22 support of recovery of the deferred expense amounts for consideration.

23 **D. Operating Income Summary**

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Adjusted Test Year Revenues	\$7,492,744	\$9,283,101	\$8,637,123	\$5,940,381	\$5,661,710

24  
25  
26  
27 <sup>286</sup> Co. Reply Br. at 16.

<sup>287</sup> RUCO Br. at 21-22; RUCO Reply Br. at 9.

<sup>288</sup> Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 10.

<sup>289</sup> RUCO Reply Br. at 10.

Adjusted Test Year Operating Expenses	\$6,946,809	\$8,376,956	\$8,426,722	\$5,888,749	\$5,257,191
Adjusted Test Year Operating Income	\$545,935	\$906,145	\$210,401	\$51,632	\$404,519

## V. COST OF CAPITAL

The final rate of return recommendations are as follows:

	Cost of Debt	Cost of Equity	Capital Structure Equity/Debt	Weighted Average Cost of Capital
Company	4.91%	10.70%	38.86% / 61.14%	7.20%
RUCO	5.02%*	9.50%	39.15% / 60.85%*	6.77%
Council				6.37%**
Staff	4.91%	10.70%	38.86% / 61.14%	7.20%

\* long-term and short-term debt combined.

\*\* The Council did not perform a cost of capital analysis. The Council originally based its rate of return recommendation of 6.77 percent on that recommended by RUCO.<sup>290</sup> However, in its Reply Brief, the Council states a belief that a 6.37 percent rate of return is reasonable and appropriate.<sup>291</sup>

### A. Capital Structure

The Company's application proposed a capital structure of 45.15 percent equity and 58.85 percent debt, excluding short-term debt.<sup>292</sup> However, in order to limit the number of issues in this case, the Company agreed in its rebuttal testimony to accept Staff's cost of capital recommendations.<sup>293</sup> RUCO recommends a capital structure of approximately 13.29 percent short-term debt, 47.56 percent long-term debt and 39.15 percent equity.<sup>294</sup> Staff recommends a capital structure of 38.86 percent equity and 61.14 percent debt, which includes short-term debt.<sup>295</sup>

There is very little difference between the capital structures recommended by RUCO and Staff's witnesses.<sup>296</sup> For purposes of this proceeding, we adopt a capital structure for the Company consisting of 38.86 percent equity and 61.14 percent debt, which includes short-term debt.

<sup>290</sup> Council Br. at 14.

<sup>291</sup> *Id.* at 15.

<sup>292</sup> Direct Testimony of Company witness Thomas Broderick (Exh. A-6) at 8-10.

<sup>293</sup> Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 4; Phase I Tr. at 490.

<sup>294</sup> Surrebutal Testimony of RUCO witness William Rigsby (Exh. R-4) at 3.

<sup>295</sup> Direct Testimony of Staff witness Juan Manrique (Exh. S-3) at 10.

<sup>296</sup> Surrebutal Testimony of RUCO witness William Rigsby (Exh. R-4) at 3.

## B. Cost of Debt

The Company's application stated a cost of debt of 5.468 percent.<sup>297</sup> The Company agreed to accept Staff's recommended cost of debt of 4.91 percent.<sup>298</sup> RUCO recommends a cost of short-term debt of 3.41 percent, and a cost of long-term debt of 5.47 percent.<sup>299</sup> RUCO's witness notes that RUCO's recommended combined long-term and short-term debt cost of debt would be 5.02 percent, and would produce the same WACC as that produced by the separated debt costs.<sup>300</sup>

A 4.91 percent cost of debt is reasonable and will be adopted for purposes of this rate case.

## C. Cost of Equity

Unlike the cost of debt, which is based on actual costs, Arizona-American's cost of equity must be estimated. The Company, RUCO and Staff each presented a witness who testified as to the analysis used to reach their estimated cost of equity recommendations. Each witness used data from selected sample groups of publicly traded companies in order to perform the estimates.

The Company contends that the cost of equity analysis of its witness, which included two versions of the Discounted Cash Flow ("DCF") model, three versions of the Capital Asset Pricing model ("CAPM"), and an after-tax weighted average cost of capital ("ATWACC") analysis, supports a 12.25 percent cost of equity.<sup>301</sup> However, in order to limit the number of issues in this case, the Company agreed in its rebuttal testimony to accept Staff's cost of capital recommendations,<sup>302</sup> and proposes a cost of equity of 10.7 percent.<sup>303</sup>

The analysis of Staff's witness included use of two DCF models and a CAPM. Staff's average DCF and CAPM results produce a 9.9 percent cost of equity capital, which after Staff's 80 basis point risk adjustment, produces Staff's recommendation of 10.7 percent as the Company's estimated cost of equity.<sup>304</sup>

<sup>297</sup> Direct Testimony of Company witness Thomas Broderick (Exh. A-6) at 8-10.

<sup>298</sup> Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 15-16; Direct Testimony of Staff witness Juan Manrique (Exh. S-3) at Schedule JCM-1.

<sup>299</sup> Surrebuttal Testimony of RUCO witness William Rigsby (Exh. R-4) at 4.

<sup>300</sup> *Id.* at 5.

<sup>301</sup> Co. Br. at 36, citing to Direct Testimony of Company witness Bente Villadsen (Exh. A-20) at 36-37, Appendix B and 65-69.

<sup>302</sup> Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 4; Phase I Tr. at 490.

<sup>303</sup> Co Br. at 35.

<sup>304</sup> Schedule JCM-3.

RUCO's witness also used a DCF and CAPM analysis, and based on the results, RUCO recommends a cost of equity of 9.50 percent.<sup>305</sup>

The Company contends that Staff's analysis supports a cost of equity of 10.7 percent.<sup>306</sup> The Company points out that Staff's resulting weighted average cost of capital of 7.2 percent is lower than the 7.33 percent approved for the Company in Decision No. 71410, the Company's most recent rate Decision, but that the recommendation recognizes the level of risk in the Company's capital structure, and is within the range of returns allowed by other jurisdictions and within the range of what credit rating agencies consider appropriate for a utility such as Arizona-American.<sup>307</sup>

The Company is critical of RUCO's cost of equity analysis and asserts that its resulting 6.7 percent weighted average cost of capital is unreasonable, lacks support, and should not be adopted.<sup>308</sup> The Company argues that RUCO's recommendation fails to recognize the impact of the current financial crisis on the cost of equity and the need to attract necessary investment.<sup>309</sup>

RUCO objects to the Company's claim that RUCO's cost of equity recommendation lacks support.<sup>310</sup> RUCO contends that its recommendation recognizes the impact of the current financial crisis on the cost of capital, because the risk associated with regulated utilities is lower than their non-regulated counterparts.<sup>311</sup> RUCO states that while the parties can argue over what is reasonable, it can hardly be argued that RUCO's recommendation lacks support, as RUCO performed the same type of cost of capital analysis as Staff, and the Company has accepted Staff's recommendation.<sup>312</sup> RUCO states that neither RUCO nor Staff's cost of capital recommendation lacks support based on the evidence in the record.<sup>313</sup>

The Company's witness testified that the facts that financial markets are in turmoil and that stock market volatility has increased dramatically mean that equity investors face increased

<sup>305</sup> Surrebuttal Testimony of RUCO witness William Rigsby (Exh. R-4) at 5.

<sup>306</sup> Co. Br. at 39.

<sup>307</sup> *Id.*

<sup>308</sup> *Id.* at 36.

<sup>309</sup> *Id.* at 37.

<sup>310</sup> RUCO Reply Br. at 18.

<sup>311</sup> *Id.* at 19.

<sup>312</sup> *Id.* at 18-19.

<sup>313</sup> *Id.* at 19.



uncertainty, which leads them to seek lower risk investments or to demand a higher expected rate of return before they are willing to invest their money, and in part, this is an explanation of why market prices have fallen.<sup>314</sup> While RUCO argues that the lower risk of regulated utilities is attractive to investors in a bad economic climate, and that the Company's parent relies on low cost debt financing to fund its capital improvements,<sup>315</sup> neither argument addresses the undisputed fact that Arizona American faces more risk than many comparable companies because it has more debt in its capital structure.

Article 15, Section 3 of the Arizona Constitution provides in relevant part that the Commission "shall have full power to, and shall, prescribe just and reasonable classifications to be used and just and reasonable rates and charges to be made and collected, by public service corporations within the State for service rendered therein." In determining just and reasonable rates, the Commission has broad discretion subject to the obligation to ascertain the fair value of the utility's property, and establishing rates that "meet the overall operating costs of the utility and produce a reasonable rate of return."<sup>316</sup> Under the Arizona Constitution, a utility company is entitled to a fair rate of return on the fair value of its properties, "no more and no less."<sup>317</sup> The oft cited *Hope*, *Bluefield*, and *Duquesne* cases<sup>318</sup> provide that the return determined by the Commission must be equal to an investment with similar risks made at generally the same time, and should be sufficient under efficient management to enable the Company to maintain its credit standing and raise funds needed for the proper discharge of its duties.

As RUCO points out, the lower risk of regulated utilities is attractive to investors in a bad economic climate, and the Company's parent relies on low cost debt financing to fund its capital improvements. Given the current economic climate, we find that Staff's financial risk adjustment is not appropriate in this case. We find that of the proposed cost of equity estimates, RUCO's is the

<sup>314</sup> Rebuttal Testimony of Company witness Bente Villadsen (Exh. A-21) at 4.

<sup>315</sup> RUCO Reply Br. at 19.

<sup>316</sup> *Scates, et al. v. Arizona Corp. Comm'n*, 118 Ariz. 531, 554, 578 P.2d 612 (Ct. App. 1978).

<sup>317</sup> *Litchfield Park Service Co. v. Arizona Corp. Comm'n*, 78 Ariz. 431, 434, 874 P.2d 988 (Ct. App. 1994), citing *Arizona Corp. Comm'n v. Citizens Utilities Co.*, 120 Ariz. 184 (Ct. App. 1978).

<sup>318</sup> *Federal Power Commission et al. v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia, et al.*, 262 U.S. 679 (1923); *Duquesne Light Co. v. Barasch*, 488 U.S. 299 (1989).

1 more reasonable. Applying the 9.50 percent cost of equity and 4.91 percent cost of debt to the  
2 capital structure adopted herein results in an overall weighted cost of capital for Arizona-American  
3 of 6.70 percent.

4  
5 Even if we were to agree with the Company's arguments about RUCO's recommended  
6 return on equity, we would nonetheless adopt it, as we believe that a reduced return on equity is  
7 justified under the facts of this case. Our decision in this matter gives rate base treatment to the  
8 Anthem plant associated with the balloon payments to Pulte. We recognize the heavy burden that  
9 this result will place upon Anthem ratepayers. In our view, the Anthem ratepayers appear to have  
10 been caught between a developer that failed to fully inform them of the relevant facts and a water  
11 company that failed to keep their best interests at heart.

12 Unfortunately, we cannot address these issues by taking any action against the developer.  
13 Much as we might want to craft a remedy that is comprehensive and directed to all the responsible  
14 actors, we do not have jurisdiction over the developer, nor do we have the comprehensive authority  
15 of a court of general jurisdiction.

16 Earlier in this decision we referred to the Federal District Court case that was initiated by  
17 certain Anthem ratepayers against Pulte, among others. In a recent order, the United States District  
18 Court for the District of Arizona granted summary judgment to the plaintiffs, concluding that Pulte  
19 had failed to disclose to prospective homebuyers the costs of the infrastructure for which they would  
20 ultimately be responsible. The Court specifically stated, "the issue is not whether a developer has a  
21 duty to predict future utility rates, but whether Pulte was required to disclose the "estimated costs  
22 related to the improvements [and facilities] that will be borne by purchasers."<sup>319</sup> This would appear  
23 to be a positive outcome for these plaintiffs, and we note that the case is currently on appeal before  
24 the 9<sup>th</sup> Circuit.

25 Because Arizona-American is not a party to the Federal District Court ruling, the  
26 Commission is unable to take direct action herein related to the litigation. That does not mean that  
27 we cannot take appropriate regulatory action against Arizona-American. While the Company's

28 <sup>319</sup> Grimmelmann v. Pulte Home Corporation, 2010 U.S. Dist. LEXIS 89695, Pg 7 13-15.

actions related to the infrastructure agreement may not justify a plant disallowance, we think that the Company nonetheless failed to adequately consider the risks that the infrastructure agreement posed for its ratepayers. The Company appears to have made concessions to the developer in an effort to win the project.<sup>320</sup> The result is an infrastructure agreement that is significantly different from standard agreements; furthermore, these differences tend to place the risk of accelerated build-out and accelerated payments entirely upon the ratepayers. The anticipated build-out schedule - and the corresponding balloon payments - were anticipated to occur over a much longer time period. Actual build-out occurred much more quickly. As a result, the Company has sought rate base treatment for the plant associated with those balloon payments much sooner than expected and over a shorter time period. Although we have not disallowed the plant, we recognize what we believe is unreasonable risk-shifting to the ratepayers. We believe the infrastructure agreement and its corresponding balloon payments are an unreasonable risk shifting to the ratepayers, and we believe that this serves as an alternative justification for a lower cost of equity in this case.

**D. Cost of Capital Summary**

	Percentage	Cost	Weighted Cost
Short-Term and Long-Term Debt	61.1%	4.91%	3.0%
Common Equity	38.9%	9.50%	3.7%
<b>Weighted Average Cost of Capital</b>			<b>6.7%</b>

**VI. REVENUE REQUIREMENT**

Based on the discussion herein, revenue increases for each of the districts are authorized as follows:

**Anthem Water**

Based on our findings herein, we determine that the Anthem Water district's gross revenue should increase by \$5,453,750, or 72.79 percent.

Fair Value Rate Base	\$57,249,836
Adjusted Operating Income	545,935
Required Fair Value Rate of Return	6.70%
Required Operating Income	3,835,739
Operating Income Deficiency	3,289,804

<sup>320</sup> See Ex. S-1 at 2.

Gross Revenue Conversion Factor	1.6578
Gross Revenue Increase	\$ 5,453,750

**Sun City Water**

Based on our findings herein, we determine that the Sun City Water district's gross revenue should increase by \$1,611,522, or 17.36 percent.

Fair Value Rate Base	\$28,188,865
Adjusted Operating Income	906,145
Required Fair Value Rate of Return	6.70%
Required Operating Income	1,888,654
Operating Income Deficiency	982,509
Gross Revenue Conversion Factor	1.6402
Gross Revenue Increase	\$ 1,611,522

**Anthem/Agua Fria Wastewater**

Based on our findings herein, we determine that the Anthem/Agua Fria Wastewater district's gross revenue should increase by \$4,657,770, or 53.93 percent.

Fair Value Rate Base	\$45,116,927
Adjusted Operating Income	210,401
Required Fair Value Rate of Return	6.70%
Required Operating Income	3,022,834
Operating Income Deficiency	2,812,433
Gross Revenue Conversion Factor	1.6561
Gross Revenue Increase	\$4,657,770

**Sun City Wastewater**

Based on our findings herein, we determine that the Sun City Wastewater district's gross revenue should increase by \$1,621,157, or 27.29 percent.

Fair Value Rate Base	\$15,489,977
Adjusted Operating Income	51,632
Required Fair Value Rate of Return	6.70%
Required Operating Income	1,037,828
Operating Income Deficiency	986,197
Gross Revenue Conversion Factor	1.6438
Gross Revenue Increase	\$1,621,157

Sun City West Wastewater

Based on our findings herein, we determine that the Sun City West Wastewater district's gross revenue should increase by \$1,326,805, or 23.43 percent.

Fair Value Rate Base	\$18,096,538
Adjusted Operating Income	404,519
Required Fair Value Rate of Return	6.70%
Required Operating Income	1,212,468
Operating Income Deficiency	807,949
Gross Revenue Conversion Factor	1.6422
Gross Revenue Increase	\$1,326,805

VII. RATE DESIGNA. Consolidation1. Company

Arizona-American states that this proceeding has made clear that for various reasons, the benefits of consolidation are championed by certain parties, and not accepted by other parties.<sup>321</sup> The Company states that while it will never be possible to convince all parties that consolidation is beneficial, this proceeding is the best opportunity to do so,<sup>322</sup> and that ample evidence exists in the record to support its implementation.<sup>323</sup> The Company states that if the Commission determines that it is appropriate to implement rate consolidation in this proceeding, it will use its best efforts to ensure that consolidation is implemented effectively in the manner ordered by the Commission.<sup>324</sup>

The Company believes that if consolidation is ordered in this proceeding, the best method to achieve the full benefits of consolidation is a Company-wide consolidation.<sup>325</sup> Arizona-American's final rate design schedules include both stand-alone rates and the Company's Preferred Consolidation Scenario One (Company Consolidation Model Version 4). For comparison purposes, the Company provided, as part of its final rate design schedules, the consolidation scenarios requested at the hearing by Chairman Mayes, which set forth consolidation if Sun City is excluded

<sup>321</sup> Co. Br. at 45.

<sup>322</sup> *Id.*

<sup>323</sup> Co. Reply Br. at 26.

<sup>324</sup> Co. Br. at 45.

<sup>325</sup> *Id.* at 46; Co. Reply Br. at 26.

and if both Sun City and Sun City West are excluded.<sup>326</sup>

The Company lists important features of its Preferred Consolidation Scenario One (Company Consolidation Model Version 4) as follows:

- it includes all of the Company's water and wastewater districts;
- it is proposed to occur in up to five "revenue neutral" steps;
- the residential 1-inch meter water monthly minimum charge is reduced to 1.25 times the 5/8 and 3/4-inch meters charge;
- the consolidated non-potable water tariff is \$1.24 per 1,000 gallons in all steps; and
- beginning in Step 1, there are five residential rate tiers for all meter sizes, and three commercial rate tiers for meter sizes two inches and smaller, and two commercial rate tiers for larger commercial meters.

## 2. Council

The Council believes that rate consolidation is a long-term solution that, over the long haul benefits all customers. The Council recommends that in order to achieve the maximum benefits of consolidation, all of Arizona-American's water and wastewater districts be consolidated through a five step implementation plan.<sup>327</sup> The Council supports the Company's Preferred Consolidation Scenario One (Company Consolidation Model Version 4).<sup>328</sup>

The Council cites as benefits of rate consolidation the following:

- lower administrative costs through unified customer accounting and billing systems;
- reduction in the number of rate cases and associated expenses;
- elimination of distorted cost allocations among districts in rate filings;
- implementation of standard customer service policies and related service rates and charges;
- improved rate stability and elimination of rate shock;
- reduced customer confusion with respect to the Company's currently differing rate schedules;

<sup>326</sup> Co. Br. at 46.

<sup>327</sup> Council Br. at 15; Council Reply Br. at 16.

<sup>328</sup> *Id.*

- development and implementation of a targeted and comprehensive water conservation program for all of its systems; and
- improved opportunities for future acquisitions, especially of troubled water systems.<sup>329</sup>

The Council states that the benefits of consolidation are particularly true for older and smaller districts that may experience disproportionately higher rates without consolidation, pointing to the Company's testimony that customers residing in Sun City, despite their current opposition to consolidation, are likely to be the greatest beneficiaries of consolidation due to the aging infrastructure in the Sun City Water district.<sup>330</sup> The Council states that the five residential tiers in the commodity rate component allow the Company to address the variation in customer use patterns across the various districts, and that that the five-step consolidation plan proposed by the Company will allow for a smoother transition and will reduce "rate shock" for customers in those districts whose rates will increase more than they would without consolidation.<sup>331</sup>

In the event that Company-wide consolidation is not instituted in this proceeding, the Council prefers the current rate structure for the Anthem districts.<sup>332</sup> The Council asserts that partial consolidation is not consistent with the purposes of consolidation, and would not provide any meaningful improvement for Anthem residents over the current stand-alone rate design.<sup>333</sup>

### 3. Paradise Valley

Paradise Valley states that now is not the opportune time to implement rate consolidation for the Company's districts.<sup>334</sup> Paradise Valley contends consolidation should be more thoroughly analyzed in a future case, with more detailed information identified from the outset of the process.<sup>335</sup>

Paradise Valley believes that consolidation should not be implemented in this case due to lack of clarity and inadequate direction in Decision No. 71410 as to how the consideration of consolidation should be accomplished, and due to the lack of meaningful "Town Halls" conducted

<sup>329</sup> Council Br. at 16.

<sup>330</sup> Council Reply Br. at 16, citing to Phase II Tr. at 347-52.

<sup>331</sup> Council Br. at 17.

<sup>332</sup> *Id.* at 18.

<sup>333</sup> *Id.* at 15.

<sup>334</sup> Paradise Valley Br. at 4.

<sup>335</sup> *Id.* at 8, 14. Paradise Valley noted that only five residents attended the Town Hall the Company conducted in Paradise Valley on July 12, 2010 at 5:30 p.m.

1 prior to the hearing, or other education of the affected customer base.<sup>336</sup> Due to the numerous  
 2 factors presented in this case, Paradise Valley contends it is nearly impossible for any customer to  
 3 predict how consolidation would affect that customer, what factors would be considered in the final  
 4 analysis, and which scenario might be selected by the Commission.<sup>337</sup> Further, Paradise Valley  
 5 contends that the lack of a defined consolidation scenario has made the probability of having a  
 6 meaningful Town Hall discussion on rate consolidation minimal.<sup>338</sup> Paradise Valley would prefer  
 7 that the Commission identify a rate consolidation proposal which would provide a basis for  
 8 customers to use their individual consumption data to analyze how that proposal would impact them,  
 9 prior to Town Hall meetings.<sup>339</sup>

10  
 11 Aside from procedural issues, however, Paradise Valley argues that consolidation is not  
 12 likely to result in any customer benefits, but only in a shifting of costs from one set of customers to  
 13 others, and that consolidation may even lead to higher customer rates in general.<sup>340</sup> Paradise  
 14 Valley's witness testified that the Town Council of Paradise Valley does not support the concept of  
 15 rate consolidation, as it does not believe there is any purpose for consolidating the Paradise Valley  
 16 Water district with other Arizona-American districts at this time, including assisting with funding  
 17 needed system upgrades or needed capital improvements, which it believes can be made regardless  
 18 of consolidation.<sup>341</sup> Paradise Valley argues that public policy goals such as water conservation can  
 19 be better addressed in individual rate cases.<sup>342</sup> Paradise Valley contends that any comparison  
 20 between the state-wide rates of APS and the rate consolidation of the Company's unique districts is  
 21 flawed, because Arizona-American's districts have varying needs and requirements and have no  
 22 centralized grid or physical interconnection between their geographically separate facilities.<sup>343</sup>

23 Paradise Valley believes that the only business logic behind rate consolidation is simplicity

24 <sup>336</sup> Paradise Valley Br. at 14.

25 <sup>337</sup> *Id.* at 6.

26 <sup>338</sup> *Id.* at 9.

27 <sup>339</sup> *Id.*

28 <sup>340</sup> *Id.*

<sup>341</sup> *Id.* at 10, citing to Direct Testimony of Paradise Valley witness James Bacon, Town Manager of Paradise Valley (Exh. PV-1) at 6 and Exhibit A.

<sup>342</sup> Paradise Valley Br. at 10.

<sup>343</sup> *Id.* at 11.



for regulators, because the Company already treats its districts as if they are one in its cost allocations, such that the only savings would be bookkeeping costs.<sup>344</sup> Paradise Valley states that the centralization of the districts' rate bases could actually lead to overall customer rate increases as it would make it more difficult for customers to dissect the information discrete to their locality in order to voice their opinion,<sup>345</sup> and customers would be less likely to question costs when ratepayers from other districts are going to help pay them.<sup>346</sup> Conversely, Paradise Valley argues that if the "combined customer" does request a vigorous vetting of requested improvements in each district, consolidation could lead to the result of pitting customers of one district against those of another.<sup>347</sup>

#### 4. Resorts

The Resorts state that under the Company's Preferred Consolidation Scenario One (Company Consolidation Model Version 4), consolidated rates would raise the revenue requirement on the Paradise Valley Water district by about 10 percent, but that the individual resorts' estimated rate increase would be 32 percent.<sup>348</sup> The Resorts claim that they would be unduly harmed by the increases in commodity charges.<sup>349</sup> The Resorts state that under the Company's Preferred Consolidation Scenario One (Company Consolidation Model Version 4), the commercial class in the Paradise Valley Water district bears a 31.5 percent increase, while the residential class bears 3.3 percent.<sup>350</sup> The Resorts contend that both the Company's and Staff's system-wide consolidation proposed rates for the Resorts will exceed the costs of providing service in the Paradise Valley Water district,<sup>351</sup> and object to both proposals because no cost of service study was done to determine whether the proposed rates achieve fairness in the apportionment of total costs of service among different consumers.<sup>352</sup> The Resorts contend that if rate consolidation is implemented, they should be excluded from consolidation or in the alternative, a "Resort Class" or commercial class of

<sup>344</sup> *Id.*

<sup>345</sup> Direct Testimony of Paradise Valley witness James Bacon, Town Manager of Paradise Valley (Exh. PV-1) at 8.

<sup>346</sup> Paradise Valley Br. at 12.

<sup>347</sup> *Id.* at 12-13.

<sup>348</sup> Resorts Br. at 2, citing to Direct Testimony of Resorts witness John Thornton (Exh. RES-1) at 2 and Resorts Final Schedules, Attachment 2.

<sup>349</sup> Resorts Br. at 3.

<sup>350</sup> *Id.*

<sup>351</sup> *Id.* at 4, citing to Direct Testimony of Resorts witness John Thornton (Exh. RES-1) at 20.

<sup>352</sup> *Id.*

1 service should be established that recognizes their unique status, and the fact that there is no other  
 2 customer class with which the Resorts can be combined.<sup>353</sup> The Resorts have therefore proposed  
 3 modifications to the Company's Preferred Consolidation Scenario One (Company Consolidation  
 4 Model Version 4) that would limit the rate impact of consolidation on the Resorts to 12 percent.<sup>354</sup>  
 5

6 Staff states that it does not believe the Resorts have met their burden of proof with respect to  
 7 exclusion from any consolidation proposal the Commission might adopt, or that the Resorts have  
 8 shown that their specific proposal serves the public interest.<sup>355</sup> Staff contends that while at some  
 9 point consideration of a special classification may be appropriate, the specifics associated with any  
 10 special resort classification would require further review.<sup>356</sup>

11 The Company believes that the commercial tiers in its Preferred Consolidation Scenario One  
 12 (Company Consolidation Model Version 4) should address the issues raised by the Resorts in  
 13 relation to consolidation.<sup>357</sup>

#### 14 5. W.R. Hansen

15 Mr. Hansen is opposed to any rate consolidation proposal, and offers six reasons why  
 16 consolidation should be rejected:

- 17 • centralization of production in concentrated plant facilities is not contemplated or  
 18 plausible;
- 19 • cost savings of significant proportion are absent;
- 20 • there is no singular rate but a move toward a centralized average, resulting in a bonus  
 21 for Anthem and Tubac at the expense of Sun City and Mohave in particular;
- 22 • the current range of rates is too wide and the ages of the infrastructure in the districts  
 23 differs too widely;
- 24 • consolidation would encourage the Company to acquire poorly performing utilities  
 25 and burden existing customers with their costs; and
- 26 • spreading the cost of service entails legal impediments.<sup>358</sup>

26 <sup>353</sup> Resorts Br. at 6, citing to Direct Testimony of Resorts witness John Thornton (Exh. RES-1) at 24.

27 <sup>354</sup> *Id.*

27 <sup>355</sup> Staff Reply Br. at 14.

28 <sup>356</sup> *Id.*

<sup>357</sup> Co. Br. at 46.

<sup>358</sup> Hansen Br. at 1-3.

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6. Larry Woods

Mr. Woods opposes the implementation of rate consolidation, which he states is technically not consolidation, but "rate leveling."<sup>359</sup> Mr. Woods asserts that sources of water, age of processing equipment, methods of purification, and distribution systems are locally unique and vary greatly from district to district, and therefore there cannot be a case made that all ratepayers should be charged the same rates for delivery of water to the faucet.<sup>360</sup> Mr. Woods believes that the idea of cost-sharing is different for a municipal utility than for a for-profit utility, whose goal is profit to the shareholder, in contrast to a municipal utility, whose focus is service.<sup>361</sup> Mr. Woods is of the opinion that situations such as that in the Tubac Water district, where a small group of residents is forced to incur exorbitant costs that are outside their control, should be addressed by government.<sup>362</sup> Mr. Woods also contends that if consolidation is approved, there will be increased acquisition activities by Arizona-American of small water systems in states of disrepair, funded by current ratepayers at no business risk to the Company.<sup>363</sup>

Mr. Woods states that he cannot identify any significant savings that would be had through consolidation.<sup>364</sup> He states that since a consolidated rate request would affect all ratepayers in all districts, then potentially there could be intervenors from all districts in consolidated rate cases, and that the actual review of consolidated rate requests would result in more review and longer proceedings, as opposed to cost savings.<sup>365</sup>

7. Marshall Magruder

Mr. Magruder proposes the following:

- rate consolidation for all water and wastewater districts in five steps over a five year period;
- adoption of either Magruder consolidated rates or a modified version of the Company's scenario one;

<sup>359</sup> Woods Br. at 1-2.

<sup>360</sup> *Id.* at 2.

<sup>361</sup> *Id.* at 5.

<sup>362</sup> *Id.* at 5-6.

<sup>363</sup> *Id.* at 4-6.

<sup>364</sup> *Id.* at 6.

<sup>365</sup> *Id.* at 3.

- implementation of a new \$500 fee for changing a water meter to a smaller size along with a safety certification recorded on the deed for such customers with fire sprinklers;
- cancellation of all low income programs with the exception of the Sun City Low Income Program proposed by the Company for condominium residents, and the institution of new similar programs for all multi-residential units served by the Company, along with a new low first residential tier at less than \$1.00/thousand gallons for the first 3,000 gallons;
- rate structure design to provide lowest rates for lowest consumption users and increasingly higher rates for the highest consumption users to conserve water by sending price signals to residential and commercial customers;
- conservation incentive rate structure with five residential and four commercial inclined block tiers, so customers can more easily use less water and move to a lower usage tier more easily;
- consolidation of all "Fees and Miscellaneous Charges;"
- consolidation for the Company's "Rules and Regulations" in one document;
- that the Company be required to submit within 90 days with a water demand side management ("DSM") adjustment not to exceed 2 percent, at least five water DSM programs in several rate classes including residential, commercial and large hotels/resorts and golf courses that include specified performance measurement objective criteria and goals for all rate categories, including customer water audits;
- that the Company provide a water loss DSM program including incentives for decreased water loss and penalties for increased water loss over 10 percent;
- that the Company activate a Citizens Advisory Committee with at least one person per small (less than 5,000 customers) district and at least two for larger districts representing different rate classes, with at least semi-annual meetings; that the Company establish a regular "Town Hall" schedule; that the Company publish a multi-page newsletter as a way to receive customer feedback and review rules and regulations and inform the public of water DSM programs and of ongoing projects or Company changes that impact customers.<sup>366</sup>

#### 8. RUCO

RUCO contends that rate consolidation would not be in the ratepayers' best interests in this case, and that due to legal impediments, the passionate divisiveness among ratepayers, and public policy constraints, rate consolidation should be rejected.<sup>367</sup> RUCO points out that on brief, the Company avoids stating a position on consolidation, but instead states that it "seeks the Commission's leadership" on the issue.<sup>368</sup> While the Company states that if consolidation is to be

<sup>366</sup> Magruder Br. at 1-2; Magruder Reply Br. at 1, 9-10, 95.

<sup>367</sup> RUCO Reply Br. at 23.

<sup>368</sup> RUCO Reply Br. at 20; see Co. Br. at 45.

1 accomplished, now is the best opportunity,<sup>369</sup> RUCO disagrees. RUCO believes that now is a bad  
 2 time to implement consolidation due to the recent rate increase for several of the Company's  
 3 systems just last year, vehement ratepayer public comment in opposition, uninformed customers,  
 4 and a bad economic environment.<sup>370</sup> RUCO contends that it cannot say when the best time would be  
 5 to approve rate consolidation for Arizona-American, but believes that a better time than the present  
 6 will be when there is one application before the Commission that includes all the districts based on a  
 7 single test year, with a single revenue requirement, when the public has had adequate notice and all  
 8 of the facts, and when there is more public support.<sup>371</sup>

9  
 10 RUCO argues that it is impossible to consolidate rates without some initial subsidization of  
 11 some districts by other districts, and that while ratepayers may be willing to pay a little bit more in  
 12 the beginning, knowing the benefits will be returned to them in the future due to consolidation, there  
 13 will be ratepayer resistance to consolidation if the initial cost shift is too great.<sup>372</sup>

14 RUCO contends that neither of the Company's (three-step or five-step) rate consolidation  
 15 proposals resolve the following issues:

- 16 • the legal infirmity of consolidated rates based on some districts' fair value rate base  
 17 calculated on a 2007 test year and others based on a 2008 test year (RUCO argues  
 18 that in order to consolidate rates based on two different test years, the rate bases and  
 19 rates of return will have to be averaged or blended);
- 20 • the violation of the Commission's rule that a utility's rates must be set based on a  
 21 one-year historical test period;
- 22 • the lack of conformity to the revenue neutrality requirement of Decision No. 71410  
 23 (RUCO argues that during the phase-in to consolidation proposed by the Company,  
 24 the total revenue requirement is being constantly shifted among the districts, which  
 25 RUCO argues does not comport with language in Decision No. 71410 requiring  
 consideration of "a revenue neutral change to rate design");<sup>373</sup>
- 26 • failure to mitigate "rate shock" for Anthem ratepayers until completion of all the  
 27 steps;
- 28 • impairment of the Commission's goal of water conservation because consolidated

26 <sup>369</sup> See Co. Br. at 45.

27 <sup>370</sup> RUCO Br. at 60-61 and RUCO Reply Br. at 21, citing to Tr. at 1092-94.

28 <sup>371</sup> RUCO Br. at 61.

<sup>372</sup> RUCO Br. at 65-66, citing to Direct Rate Design/Rate Consolidation Testimony of RUCO witness Jodi Jerich (Exh. R-14) at 22.

<sup>373</sup> See Decision No. 71410 at 78.

commodity rates distort the actual cost to deliver safe and reliable water to customers;<sup>374</sup>

- failure to include sufficient safeguards to preserve adequate detail and recordkeeping so that the Commission can properly monitor and inspect the books;
- increases in rates for ratepayers who recently received a rate increase in 2009 pursuant to Decision No. 71410; and
- failure to provide rate stability, because ratepayers in the Sun City, Paradise Valley and Mohave districts will be caught in a continuous cycle of rate increases, and because the Company will likely be back requesting more rate increases before all the steps toward full implementation of consolidation are completed, which RUCO believes will cause ill will for the Company and the Commission.<sup>375</sup>

RUCO is also opposed to partial consolidation scenarios. RUCO states that if the intent of separating the Sun City and Sun City West districts from consolidation is to shield retired ratepayers living on fixed incomes from subsidizing rates for others, the effort fails, because there are retirees living on fixed incomes, as well as low-income ratepayers, living in other Arizona-American districts as well.<sup>376</sup> RUCO also makes the point that keeping two of the largest systems out of a consolidated rate design only shifts more costs to ratepayers in other districts that also include retirees and low-income customers.<sup>377</sup>

The Company indicates that it does not believe RUCO's legal arguments create any impediment to consolidation.<sup>378</sup>

The Council states that it opposes RUCO's policy arguments against consolidation.<sup>379</sup> The Council also discounts RUCO's legal arguments against consolidation, and contends that the Commission has the authority and the discretion to consider the different test years, costs of equity and costs of debt to which RUCO refers, with the objective of determining whether the rates and charges under a given Company-wide rate consolidation proposal would result in just and reasonable rates and charges.<sup>380</sup> The Council states that it is not proposing to, and the Commission is not required to, "average" the fair value determinations of the two rate cases, and that the passage of

<sup>374</sup> Direct Rate Design/Rate Consolidation Testimony of RUCO witness Jodi Jerich (Exh. R-14) at 14.

<sup>375</sup> RUCO Reply Br. at 22-23.

<sup>376</sup> RUCO Br. at 65.

<sup>377</sup> *Id.*

<sup>378</sup> Co. Reply Br. at 26.

<sup>379</sup> Council Reply Br. at 19-20.

<sup>380</sup> *Id.* at 18.

time between the fair value determinations in Decision No. 71410 and this case is not such as to make unreasonable the Commission's consideration of all the fair value determinations.<sup>381</sup> As to the issue of revenue neutral consolidated rate designs, the Council states that as RUCO has noted, it is mathematically impossible to create a consolidated rate design whereby each water and wastewater district retains its individual revenue requirement, and that RUCO's interpretation that consolidation violates the language of Decision No. 71410 requiring "revenue neutrality" cannot be reconciled with the Commission's stated desire to explore consolidation.<sup>382</sup>

Staff states that the issues RUCO raised about the use of different test years and the interpretation of the directive that consolidated rates be "revenue neutral" could be addressed, to the extent they are valid, should the Commission desire to adopt a consolidated rate design proposal.<sup>383</sup>

#### 9. Staff

Staff does not support consolidation of the rate design for all or some of the Company's districts at this time, and recommends that the Commission adopt Staff's stand-alone rate design.<sup>384</sup>

In compliance with Decision No. 71410, Staff put forward consolidation proposals. Staff presented three alternative consolidated rate design proposals, using the consolidation model provided by the Company, should the Commission decide that consolidation was appropriate in this case.<sup>385</sup> Staff presented three separate rate consolidation scenarios:

- Staff's Consolidation Scenario One is a total consolidation of all the Company's respective water and wastewater districts in Arizona.<sup>386</sup>
- Staff's Consolidation Scenario Two consolidates the following water districts: Agua Fria, Anthem, Tubac, Mohave, Havasu, and Paradise Valley as one consolidation; and Sun City and Sun City West as a separate consolidation. Scenario Two also consolidates the wastewater districts as follows: Sun City and Sun City West as one consolidation, and Anthem/Agua Fria and Mohave as a separate consolidation.<sup>387</sup>
- Staff's Consolidation Scenario Three consolidates only water districts as follows: Sun City and Sun City West together; Agua Fria, Anthem and Paradise Valley

<sup>381</sup> *Id.*

<sup>382</sup> *Id.* at 19.

<sup>383</sup> Staff Reply Br. at 14.

<sup>384</sup> Staff Br. at 16; Staff Reply Br. at 13.

<sup>385</sup> Direct Testimony of Staff witness Jeffrey Michlik (Exh. S-15) at 21-23.

<sup>386</sup> *Id.* at 21-22 and Schedule JMM-3 and JMM-4.

<sup>387</sup> *Id.* at 23-23 and Schedule JMM-5 and JMM-6.

together; and Tubac, Mohave and Havasu together.<sup>388</sup>

Staff states that it has always been concerned by the fact that the Company did not propose a consolidated rate design in its direct case.<sup>389</sup> Staff states that the Company has the burden of proof, and the Company's failure to present a direct case in support of rate consolidation means that much of the information Staff believes is needed to do a cost/benefit analysis was not in the record.<sup>390</sup> Staff's witness Mr. Abinah identified the following factors that Staff believes should be considered:

- public health and safety;
- proximity and location;
- economies of scale/rate case expense;
- price shock/mitigation;
- public policy; and
- how other jurisdictions/municipalities are addressing the issue.<sup>391</sup>

Staff also expressed concern that although the Company took action late in the proceeding to hold additional Town Hall meetings throughout its service territory where such meetings had not previously been held, the Company had not complied with the Commission's directive to hold Town Hall meetings in each district on the issue of rate consolidation at the time of the hearing.<sup>392</sup>

## **B. Stand-Alone Rate Design Proposals – Water Districts**

### **1. Arizona-American Stand-Alone Rate Design**

With respect to a stand-alone rate design, the Company requests that the Commission institute its rate design, which consists of a pro-rata increase to the existing rate design for the districts.<sup>393</sup>

The Council states that if Company-wide consolidated rates are not adopted, the current rate structure of the Anthem Water district should be retained, and that it prefers the Company's stand-

<sup>388</sup> *Id.* at 23 and Schedule JMM-7 and JMM-8.

<sup>389</sup> Staff Br. at 22, citing to Direct Testimony of Staff witness Elijah Abinah (Exh. S-16) at 7; Staff Reply Br. at 13.

<sup>390</sup> Staff Br. at 22, citing to Direct Testimony of Staff witness Elijah Abinah (Exh. S-16) at 6-7; Staff Reply Br. at 13.

<sup>391</sup> Staff Br. at 22, citing to Direct Testimony of Staff witness Elijah Abinah (Exh. S-16) at 4-5.

<sup>392</sup> Staff Reply Br. at 13.

<sup>393</sup> Co. Br. at 42; Co. Reply Br. at 24.



alone proposal to Staff's because it retains the current tier levels for all meter sizes and increases all customers' bills by the same percentage rather than shifting revenues from residential to commercial classes of customers.<sup>394</sup>

## 2. RUCO Stand-Alone Rate Design

RUCO's proposed rate design is generally the same as that proposed by the Company. RUCO recommends that it be adopted.<sup>395</sup>

## 3. Staff Stand-Alone Rate Design Issues

### a. Private Fire Rate

Consistent with its proposal adopted in other cases, Staff proposes a change to the private fire rate for the Anthem and Sun City Water districts to the greater of \$10 or two percent of the monthly minimum charge for the applicable meter size.<sup>396</sup> The Company opposes the change, arguing that it is unwarranted. The Company believes the change will lead to a dramatic shift of revenues to other classes of customers.<sup>397</sup>

Staff recommends that its proposed Private Fire Rate be adopted in this case.<sup>398</sup>

### b. Staff's Tier Structure

The Council takes issue with Staff's proposed tier breakpoints and rates, arguing that they are "without adequate foundation or support and would adversely affect Anthem customers."<sup>399</sup> The Council opposes Staff's proposed increase in the rates for higher usage water customers and the tier break-points for larger meter sizes, arguing that Staff's lowering in the tier break points for commercial customers, coupled with greater-than-average increases in the second tier rate, could increase some commercial customers' bills by as much as 250 percent.<sup>400</sup> The Council faults Staff for not having performed a cost of service study to support its proposal and for not discussing non-cost factors that it considered in arriving at its rate proposals.<sup>401</sup>

<sup>394</sup> Council Reply Br. at 20.

<sup>395</sup> RUCO Br. at 67; RUCO Reply Br. at 24.

<sup>396</sup> Phase II Tr. at 1259.

<sup>397</sup> Co. Br. at 44.

<sup>398</sup> Staff Reply Br. at 11.

<sup>399</sup> Council Br. at 18.

<sup>400</sup> *Id.*; Council Reply Br. at 20.

<sup>401</sup> Council Br. at 18.

Staff states that one of the Commission's primary objectives in setting water rates is efficient use of water, and that Staff's proposed revisions are intended to accomplish this objective.<sup>402</sup> Staff responds that no party prepared a cost of service study in this case, including the Council, and that it was not the responsibility of Staff, any more than it was the responsibility of the Council, to perform a cost of service study.<sup>403</sup> Staff argues that the lack of a cost of service study should not act to prevent Staff from considering important Commission objectives and proposing rate designs in line with those objectives.<sup>404</sup> Staff further argues that rates are not designed on cost of service principles alone, but that non-cost factors are often used by the Commission to set rates as well.<sup>405</sup>

c. Staff's Alternative 5-Tier Water Rate Design

As requested at the hearing, Staff provided a five tier rate design for the Anthem Water and Sun City Water districts. Staff states that its five tier rate design for those water districts would provide a "lifeline" level of rates suitable for low-income water users, which some parties support in this case.<sup>406</sup>

The Company requests that Staff's alternative five-tier water rate design be rejected.<sup>407</sup> The Company believes that the initial breakpoints in Staff's alternative is too low, at 1,000 gallons per month for Sun City Water and 2,000 gallons per month for Anthem Water.<sup>408</sup> The Company argues that the tiers are not appropriate for the Company's entire system, and that if the Commission wishes to move the Company to five tiers, the Company would prefer that the tiers included in its consolidated rate design be adopted instead, because they are appropriate for all the Company's districts.<sup>409</sup>

d. Elimination of Capacity Reservation Charges

Staff recommends the elimination of the Capacity Reservation Charges for the Anthem

<sup>402</sup> Staff Reply Br. at 12.

<sup>403</sup> *Id.* at 12-13.

<sup>404</sup> *Id.* at 13.

<sup>405</sup> *Id.*

<sup>406</sup> Staff Reply Br. at 12, citing to Magruder Br. at 29.

<sup>407</sup> Co. Br. at 42, 44-45; Co. Reply Br. at 24.

<sup>408</sup> Co. Br. at 44-45.

<sup>409</sup> *Id.*

Water district, as there were no associated revenues in the test year and no significant change is forecasted.<sup>410</sup> No other party briefed this issue.

4. 5/8 x 3/4-inch and 1-inch Meter Monthly Usage Charges for Anthem Water

Staff recommends against charging 1-inch meter customers the same rate as the 5/8 x 3/4-inch customers, because the average consumption of Anthem ratepayers with larger meter sizes is greater, at 11,203 gallons per month for 1-inch meter customers, in contrast to 9,616 gallons per month for 5/8 x 3/4-inch meter customers.<sup>411</sup> Staff recommends that if it is determined appropriate to charge a single monthly usage charge for both meter sizes, with a lower monthly usage charge for 1-inch meter residential customers, that the monthly usage charge for 5/8 x 3/4-inch customers should also be increased, and some adjustment should be made to the tier breakpoints.<sup>412</sup>

**C. Stand-Alone Rate Design Proposals – Wastewater Districts**

1. Anthem/Agua Fria Wastewater District Effluent Rate

DMB is the developer of a master planned community called Verrado located in the Town of Buckeye north of Interstate 10 in the southeastern foothills of the White Tank Mountains.<sup>413</sup> DMB requests that a specific rate be set for effluent produced by the Anthem/Agua Fria Wastewater district.<sup>414</sup> Currently, the Anthem/Agua Fria Wastewater district does not charge DMB for the effluent that it delivers. Instead, the Agua Fria Water district charges DMB for the effluent delivered by the Anthem/Agua Fria Wastewater district.<sup>415</sup> DMB submits that \$250 an acre-foot is an appropriate and reasonable rate for effluent, as it is consistent with the \$227 per acre-foot rate charged by Arizona-American for its Mohave Wastewater district and with effluent rates charged by other regulated sewer companies, and as it is slightly less than DMB's cost to use groundwater for turf irrigation and other non-potable uses.<sup>416</sup>

Corie Bella also urges the Commission to adopt an effluent water rate of \$250 per acre-foot

<sup>410</sup> Direct Testimony of Staff witness Jeffrey Michlik (Exh. S-15) at 9.

<sup>411</sup> Staff Reply Br. at 16.

<sup>412</sup> *Id.*

<sup>413</sup> DMB Br. at 3.

<sup>414</sup> *Id.* at 2.

<sup>415</sup> *Id.* at 4, citing to Phase II Tr. at 184-85.

<sup>416</sup> DMB Br. at 2-3, 8.

1 for effluent produced by the Anthem/Agua Fria Wastewater district.<sup>417</sup> Anthem Golf concurs with  
 2 DMB and Corte Bella that an effluent rate be set for effluent produced by the Anthem/Agua Fria  
 3 Wastewater district.<sup>418</sup>

4 Staff agrees that the effluent rate should be set at a level that encourages the use of effluent  
 5 for turf irrigation.<sup>419</sup>

6 The Company requests that the effluent rate of \$250 per acre-foot or \$0.77 per 1,000 gallons  
 7 recommended by DMB for the Anthem/Agua Fria Wastewater district be adopted to govern the  
 8 direct use of effluent only.<sup>420</sup>

## 9 2. Anthem/Agua Fria Wastewater District Rate Design

10 The Anthem/Agua Fria Wastewater district is the only Company wastewater district that  
 11 currently has a volumetric charge incorporated into its residential rate structure. The volumetric rate  
 12 is based on customers' water usage. The current monthly minimum charge for all residential  
 13 customers is \$27.76 and the volumetric charge is \$3.4800 per 1,000 gallons with a 7,000 gallon per  
 14 month ceiling, such that a customer using 7,000 gallons of water per month is charged the same  
 15 amount as a customer using 29,000 gallons of water per month.<sup>421</sup> For commercial customers, the  
 16 minimum charges and commodity charges vary by meter size.

17 Staff recommends that the Company change its method of billing its residential wastewater  
 18 customers to the method currently used by some municipalities, with each residential customer  
 19 being billed based on that customer's average water usage for the months of January, February and  
 20 March.<sup>422</sup> The customer's billing would be reset every year based upon the customer's water usage  
 21 for these three months, at a rate of \$9.5966 per 1,000 gallons.<sup>423</sup> Staff states that while the  
 22 Anthem/Agua Fria Wastewater district is the only wastewater district of the Company with  
 23 volumetric wastewater rates, the current volumetric rate design does not encourage conservation.<sup>424</sup>

24  
 25 <sup>417</sup> Corte Bella Br. at 2.

26 <sup>418</sup> Anthem Golf Reply Br. at 2.

27 <sup>419</sup> Staff Reply Br. at 15.

28 <sup>420</sup> Co. Reply Br. at 25.

<sup>421</sup> Phase II Tr. at 1260-61.

<sup>422</sup> Direct Testimony of Staff witness Jeffrey Michlik (Exh. S-15) at 12.

<sup>423</sup> *Id.*

<sup>424</sup> Staff Reply Br. at 10.

Staff states that it proposed this wastewater rate design because water usage during winter months provides a more accurate representation of the amount of wastewater being discharged from the customer's home year-round, and results in a more appropriate basis for wastewater charges.<sup>425</sup>

The Company argues that Staff's proposed stand-alone rate design for the Anthem/Agua Fria Wastewater district should be rejected because it would unduly increase the dependence of wastewater revenues on water sales, which vary significantly from year to year, and which the Company asserts are declining in Anthem.<sup>426</sup> The Company argues that no party has fully analyzed the potential significant water conservation effect of this proposal.<sup>427</sup> At the same time, the Company also argues that Staff's proposal would be likely to increase summer water usage.<sup>428</sup>

The Council agrees with the Company that Staff's rate design would increase the Company's dependence on wastewater revenues based on water sales which vary significantly, and also argues that a pure commodity rate as Staff proposes would inappropriately deviate from basic cost of service principles.<sup>429</sup>

Staff responds that it is not aware of evidence in the record that water sales are declining in Anthem, or that they vary significantly from year to year or more significantly than is typical or experienced by other water companies.<sup>430</sup> Staff contends that the months of January, February and March provide a more accurate representation of customers' water usage that the Company actually treats as wastewater.<sup>431</sup>

In an attempt to rebut Staff's position that the months of January, February and March would be a more accurate representation of water usage that is actually treated as wastewater, both the Company and the Council point to the requirement in the Anthem community that winter lawns be overseeded.<sup>432</sup> Staff states that while a document regarding the specifics of the overseeding requirement was filed in the docket, there is no evidence in the record as to how many customers the

<sup>425</sup> Direct Testimony of Staff witness Jeffrey Michlik (Exh. S-15) at 11.

<sup>426</sup> Co. Br. at 43.

<sup>427</sup> *Id.*

<sup>428</sup> Co. Br. at 44, citing to Rate Design Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-39) at 5.

<sup>429</sup> Council Br. at 19.

<sup>430</sup> Staff Reply Br. at 10-11.

<sup>431</sup> *Id.* at 10.

<sup>432</sup> Co. Br. at 44, citing to Exh. A-49; Council Br. at 19.

overseeding requirement would impact, and to what degree.<sup>433</sup> As to the Council's recommended elimination of the commodity charge and reversion back to a fixed charge for all wastewater,<sup>434</sup> Staff believes this would constitute a significant step backwards on the issue of efficient use of water.<sup>435</sup>

#### D. Deconsolidation of Anthem/Agua Fria Wastewater District

The Council favors consolidation of all of Arizona-American's districts under Scenario One.<sup>436</sup> However, the Council also takes the position that absent a consolidation of all of Arizona-American's districts, the Anthem/Agua Fria Wastewater district should be separated into two separate wastewater districts, with separate stand-alone rates set for each district.<sup>437</sup> The Council argues that the rate design of the current Anthem/Agua Fria Wastewater district burdens Anthem community customers because it "in effect is a subsidization of Agua Fria wastewater customers under the existing rate design."<sup>438</sup> The Council proposes that in the event the record in this proceeding does not contain sufficient data to generate stand-alone rate designs for its proposed separate wastewater districts, that a consolidated rate design be adopted on an interim basis and that this docket be kept open for the limited purpose of designing and implementing stand-alone revenue requirements and rate designs for separate wastewater districts as soon as practicable, and in advance of the Company's next rate proceeding.<sup>439</sup>

The Company contends that there is no evidence in the record in this case to support de-consolidated revenue requirements for the district.<sup>440</sup> Staff agrees.<sup>441</sup> The Company states that if the Commission determines that it is appropriate, it does not object to future deconsolidation of the district in the Company's next rate case, and requests direction from the Commission on whether to file individual rate cases on a de-consolidated basis.<sup>442</sup>

<sup>433</sup> Staff Br. at 19; Staff Reply Br. at 10.

<sup>434</sup> Council Br. at 19; Direct Rate Design Testimony of Council witness Dan Neidlinger (Exh. Anthem-18) at 4.

<sup>435</sup> Staff Br. at 19.

<sup>436</sup> Council Br. at 20.

<sup>437</sup> *Id.* at 19-20; Council Reply Br. at 21.

<sup>438</sup> Council Br. at 19-20, citing to Tr. 331-334.

<sup>439</sup> Council Reply Br. at 21.

<sup>440</sup> Co. Reply at 25.

<sup>441</sup> Staff Reply Br. at 14.

<sup>442</sup> Co. Reply Br. at 25-26.

Good public policy requires the Commission to correctly assign cost responsibility for all ratemaking components in as expeditious a manner as possible, and deconsolidation of Anthem/Agua Fria Wastewater District is consistent with such action. However, the record does not include adequate rate base or operating income information to immediately implement stand-alone rate designs for the resulting Anthem Wastewater district and Agua Fria Wastewater district at this time. Therefore, we will (i) approve the rates adopted herein for Anthem/Agua Fria Wastewater district as a consolidated district on an interim basis, and (ii) order the docket in the instant proceeding to remain open for the sole purpose of considering the design and implementation of stand-alone revenue requirements and rate designs as agreed to in the settlement reached during the Open Meeting for the Anthem Wastewater district and Agua Fria Wastewater district as soon as possible. The Company shall file its initial application no later than April 1, 2011.

#### E. Conclusions

##### 1. Consolidation

As RUCO acknowledges, the goal of rate consolidation is admirable, but each case considering rate consolidation must be considered independently based on the facts and circumstances of the particular case. In this case, the facts demonstrate that the existing large disparity in rates among the Company's districts presents an insurmountable impediment, at this time, to statewide consolidation of rates for the Arizona-American water and wastewater districts. We agree with RUCO that, while statewide rate consolidation would undoubtedly help to ameliorate rate increases for some ratepayers in this case, when all other facts are considered, that amelioration comes at too high a cost. The proponents of consolidation do not propose partial consolidation. After careful consideration of the facts and arguments presented by the parties, we decline to order the implementation of consolidated rates for the Arizona-American districts at this time.

Also, in their comments, parties asserted that the topic of rate consolidation should occur where all of Arizona-American's systems are being considered, which would allow for full consideration of all the consolidation options and rate impacts. In the instant proceeding, most, but not all, systems are being considered. In light of party comments, we believe it is appropriate to

1 order the Company to develop a consolidation proposal that includes all of its systems, as well as all  
2 of its systems without Sun City, and to file those consolidation proposals in a future rate application.

3  
4 2. Stand-Alone Rate Design Issues

5 Of the stand-alone rate design proposals presented, we find Staff's proposal to be the most  
6 appropriate and reasonable, and will adopt it, as set forth in Exhibit A, attached hereto and  
7 incorporated herein,

8 Exhibit A includes the five-tier water rate design provided by Staff for the Anthem Water  
9 and Sun City Water districts. The adoption of Staff's five-tier rate design serves two purposes.  
10 While we are not adopting consolidated rates in this case, Staff's alternative design moves the two  
11 water districts from the current three-tier rate design to a five-tier rate design, so that if consolidation  
12 is considered in the future, these two districts will already have a rate design more amenable to  
13 consolidation. Also, unlike the Company's preferred five-tier rate design, Staff's lower first tier will  
14 provide a "lifeline" level of rates suitable for low-income water users, as advocated by Mr.  
15 Magruder.

16 Exhibit A adopts the private fire rate proposed by Staff, in accordance with our adoption of  
17 similar private fire rates for other water utilities in the state.

18 Exhibit A also adopts Staff's proposed changes to the current volumetric rate design for the  
19 Anthem/Agua Fria Wastewater district, based on the model used by many municipalities, and will  
20 more accurately represent of the amount of wastewater being discharged from the customer's home.  
21 After considering the record facts and the arguments of the Company, the Council, and Staff, we  
22 find that Staff's wastewater rate design for the Anthem/Agua Fria Wastewater district will result in a  
23 more appropriate and fairer basis to ratepayers for wastewater charges than the current rate design.  
24 The current rate design results in the same residential wastewater charges for customers using 7,000  
25 gallons of water a month as for those customers using many times more. The existence of a  
26 volumetric rate design allows us to remedy this inequity. The change we adopt to the wastewater  
27 rate design will allow customers to know more about how their water usage impacts their  
28 wastewater billing, and will therefore give them more control over their wastewater bills. Staff's



1 recommendation is reasonable and appropriate and will be adopted.

2 Staff's recommendation that the Capacity Reservation Charges for the Anthem Water district  
3 be eliminated is reasonable and will be adopted.

4 The requests of DMB, Corte Bella and Anthem Golf in regard to establishment of an effluent  
5 rate are reasonable. We find that an effluent rate of \$250 per acre foot, or \$0.77 per 1,000 gallons  
6 for all usage of non-potable effluent by the Anthem/Agua Fria Wastewater district, as agreed to by  
7 the Company, is reasonable and it will be adopted. The adjusted test year revenues in the parties'  
8 final schedules included revenues from effluent water sold by Anthem Water at \$2.56 per 1,000  
9 gallons, and no revenues for effluent water sales by Anthem/Agua Fria Wastewater. According to  
10 the Company, under the \$0.77 per 1,000 gallon effluent rate, Anthem/Agua Fria Wastewater would  
11 have realized test year revenues of \$449,603. In order to establish the new effluent rate for  
12 Anthem/Agua Fria Wastewater, Anthem Water's rates must be designed to recover the resulting  
13 difference in revenues from other water sales, and Anthem/Agua Fria Wastewater's rates must be  
14 designed to reflect the increase revenues. The new effluent rate for the Anthem/Agua Fria  
15 Wastewater district is reflected on Exhibit A.

## 16 **VIII. OTHER ISSUES**

### 17 **A. Sun City Water Low Income Program**

18 At the hearing, in response to public comment regarding the applicability of the current Sun  
19 City Low Income Program to condominium dwellers, the Company was asked to look into a means  
20 of administering the program so that condominium dwellers can participate.

21 In a filing dated July 30, 2010, the Company submitted a proposal and recommended in a  
22 post-hearing filing docketed on July 30, 2010 a means to administer the existing Sun City low  
23 income program (presently a \$4 per month credit) to the many thousands of condominium<sup>443</sup>  
24 residents in the Sun City Water district. As requested during the hearing, the Company investigated  
25 and conducted outreach in relation to the Sun City Low Income Program and its applicability to  
26

27  
28 <sup>443</sup> The Company noted that the program can also include some other multi-housing situations such as mobile homes as appropriate.

1 condominium residents. The Company noted that condominium residents are not the direct  
2 customers of Arizona-American, but rather are served in groups, on larger water meters for which  
3 the name on the account is the condominium association or the management company that pays the  
4 bills for the condominium association. When a low income resident served in this way wishes to  
5 receive a low income water credit on a water bill, neither the resident nor the Company can require  
6 the association to provide that credit to the particular resident. To date, therefore, only single  
7 dwelling unit residents have been eligible for Sun City's Low Income Program.

8  
9 The Company states that following the hearing in this matter, the Company investigated and  
10 conducted outreach on three possible options, only one of which is viable at this time:

11 Option 1. The first (non-viable) option would involve the Company providing the low  
12 income credit as usual via the water bill and the association in turn providing that credit to the  
13 qualified low income resident, most likely through a reduction in the periodic homeowner's  
14 association fee. The association fee is the means by which a condominium resident pays for charges  
15 for water and many other services, such as landscaping, incurred by the association on behalf of its  
16 residents. The Company states that the associations with which the Company spoke do not want to  
17 undertake this responsibility, and that among their concerns are that they would be taking on a  
18 liability to accurately transmit low income credits.

19 Option 2. As an alternative to providing the low income credit via the water bill, a  
20 second (non-viable) option was investigated and would involve the Company periodically (quarterly  
21 or annually) providing checks to condominium residents who qualify for the low income program.  
22 The Company states that a number of computer system and logistics challenges make this option too  
23 expensive and unworkable, with the primary challenge being that this effort must occur outside of  
24 the Company's billing systems, because the residents are not the Company's direct customers. The  
25 Company states that it would need to create and maintain a separate process and separate database  
26 with handoffs from various Company employees in order to accurately provide checks. First, local  
27 Company employees would need to determine in which association the resident resides and next  
28 determine the appropriate multi-dwelling water account number for that dweller. Next, other

Service Company employees would need to set up a process and system to provide the resident a check to be periodically mailed to the resident. The local Company employees would later need to periodically re-contact each low income resident to ensure he/she is still residing in that unit. In addition, the credits provided under this program would need to be periodically totaled and added to the credits provided to single housing dwellers to be tracked against overall funding. That would require another set of accounting entries (probably monthly) to the regulatory asset used for that purpose. This process would involve the training of employees and the establishment of new responsibilities and would be subject to periodic internal or external audit. As a result, significant resources would need to be devoted to a relatively minor activity to ensure effectiveness and accuracy for this option.

Option 3. As a viable alternative to the Company sending checks directly to residents, the Company states that it has on several occasions discussed with the Sun City Taxpayers Association ("SCTPA") a means of administering this program at a nominal cost. Under this alternative, the Company would periodically (probably semi-annually) provide the SCTPA with a lump sum of funding, (e.g., \$20,000) in order for the SCTPA to cut checks to qualified low income condominium residents. Essentially, SCTPA would handle all tasks described in the second option above. The Company states that key features of this option would include the following:

- a. SCTPA would process \$4 credits for condominium residents only, as single housing residents would continue to be processed by the Company.<sup>444</sup>
- b. SCTPA would establish accounting procedures to record information about each qualified condominium resident and low income credit amounts provided. SCTPA would maintain a separate bank account for this effort and would periodically and also upon request make records available to the Company or another intervenor for review in future rate cases (e.g., Commission Staff). SCTPA would only be reimbursed for reasonable direct costs to administer this program (e.g., banking and record keeping fees) and an allocation of SCTPA labor costs.
- c. SCTPA would periodically inform the Company of the number of low income participants in order for the Company to effectively monitor the 1,000 customer ceiling for this program. The Company would periodically

<sup>444</sup> The Company stated that the credit amount may be increased or decreased by the Commission upon completion of future Sun City Water district rate cases. A condo resident's credit would equal the credit provided to single housing residents.

replenish the account via a lump sum as per anticipated requirements of the program as communicated by SCTPA to the Company as regards near term funding requirements.

- d. The SCTPA (which annually prepares tax returns for approximately 4,000 residents) has informed the Company that this approach would help the SCTPA to better identify persons eligible for some of its other low income related programs (e.g., property tax assistance), and the Company believes SCTPA would be a trustworthy and reliable partner.

The Company stated that while details still remain to be worked out between the Company and the SCTPA, including a contract between them, they reached general agreement following a July 29, 2010 meeting. The Company attached a copy of documents prepared by SCTPA and provided to the Company as their response to earlier informal discussions. The Company stated that while a few minor changes are anticipated to this document before it is final, the parties intend to proceed to contracting in order to make the expansion of this important low income program to condominium dwellers occur as soon as possible. The Company stated that it is very appreciative of the SCTPA's receptiveness to this low income program.

The Commission commends the Company and the SCPTA in their joint efforts to extend the benefit of the Sun City Low Income Program to condominium and other multi-housing dwellers. A copy of the documents prepared by the SCPTA and attached to the Company's July 30, 2010 filing are attached hereto as Exhibit B and incorporated herein by reference. We will direct the Company to file within 60 days, or sooner if possible, an application for approval of changes to the Sun City Low Income Program to extend the benefit of the Sun City Low Income Program to condominium and other multi-housing dwellers, that generally incorporates the program outlined in Exhibit B, for review by Staff. We will direct Staff to subsequently review the Company's Sun City Low Income Program filing and to prepare and docket, within 60 days of the Company's filing, a Recommended Order regarding the Company's proposed changes to the Sun City Low Income Program.

The Company states that the current Sun City Low Income Program assumes participation of 1,000 customers, and assuming the 50 percent discount for 5/8-inch low income customers, the updated annual subsidy is \$54,000.<sup>445</sup> Enrollment in the program is presently less than 1,000

<sup>445</sup> Rebuttal Testimony of Company witness Thomas Broderick to Staff's Rate Design Testimony (Exh. A-39) at 11.

1 customers and the fund is over-collected.<sup>446</sup> The Company states that the current program's  
 2 balancing account feature allows the Company to late refund any over charge or recover any under  
 3 charge, and authorizes a surcharge which can be tried up annually.<sup>447</sup> The program serves up to  
 4 1,000 customers at a recommended discount of \$4.50 per month at an annual cost of \$54,000 (1,000  
 5 times \$4.50 times 12 bills). In the test year, the thousands of gallons used by the residential and  
 6 commercial Sun City Water high block customers was 2,093,842. Therefore, the amount of \$0.026  
 7 per 1,000 gallons must be added to the high block rate in order to fund the Sun City Low Income  
 8 Program. We find that the current high block funding mechanism remains a reasonable means of  
 9 funding the Sun City Low Income Program, and will order the Company to continue it.

#### 10 **B. Infrastructure Improvement Surcharge (Sun City Water)**

11 The Company proposed the institution of a surcharge to fund the replacement of existing  
 12 assets such as mains, hydrants, meters, tanks, and booster stations for the Sun City Water district.<sup>448</sup>  
 13 The Company states that much of Sun City's water infrastructure is fifty years old, and major  
 14 improvements will be required to continue provision of safe and reliable water service in this  
 15 district.<sup>449</sup> Under the Company's Infrastructure Improvement Surcharge ("IIS") proposal, the  
 16 Company would assess, twice per year, assets that had been placed in service, and using the most  
 17 recently approved return on equity, depreciation rates, cost of debt, capital structure and revenue  
 18 gross-up factors, along with the estimated service life, the Company would calculate an appropriate  
 19 return on the assets and the depreciation expense on the assets.<sup>450</sup> The total amount of the IIS would  
 20 be the return on and of the qualifying assets, calculated as a percentage of the base revenue  
 21 requirement from the prior rate case, capped at 10 percent.<sup>451</sup> Following the implementation of new  
 22 rates from any subsequent rate case, in which the assets would be subject to a prudence review, a  
 23 revised surcharge would be calculated removing from the surcharge qualifying assets included in the  
 24

25 <sup>446</sup> *Id.*

26 <sup>447</sup> *Id.*

27 <sup>448</sup> Direct Testimony of Company witness Christopher Buis (Exh. A-5) at 4.

28 <sup>449</sup> Co. Br. at 39-40.

<sup>450</sup> Direct Testimony of Company witness Christopher Buis (Exh. A-5) at 4.

<sup>451</sup> *Id.* at 6; Phase II Tr. at 435-436.

1 rate base in that case.<sup>452</sup> The Company's witness Mr. Townsley testified that this type of surcharge  
 2 is used in other jurisdictions to replace aged infrastructure, and that the National Association of  
 3 Regulatory Utility Commissioners ("NARUC") water subcommittee has endorsed such a surcharge  
 4 mechanism as a regulatory best practice.<sup>453</sup>

5 Mr. Townsley testified that the IIS would allow the Company to make prudent investments  
 6 in replacing existing infrastructure and would alleviate large rate increases for customers.<sup>454</sup> The  
 7 Company asserts that although the types of replacements required for the Sun City Water district are  
 8 ordinary, the costs for the replacements projected to occur are not ordinary, but quite large.<sup>455</sup> The  
 9 Company argues that the surcharge would allow the Company to earn a return on its investments in  
 10 a timely manner, while at the same time alleviating "rate shock" it alleges will occur if all of the  
 11 anticipated replacements in Sun City are addressed in one rate case without any intervening means  
 12 to address the replacements in rates.<sup>456</sup>

13 RUCO opposes the IIS, and recommends that the request be denied. RUCO does not  
 14 disagree with the Company that the Sun City Water district infrastructure is old and needs repair, but  
 15 argues that the needed improvements are normal, common and routine for a water utility.<sup>457</sup> RUCO  
 16 states that the costs in question are routine, are not extraordinary, have not been shown to be  
 17 volatile, have not yet been incurred, and their amount is not known at this point.<sup>458</sup> RUCO argues  
 18 that the recovery of expenditures for plant additions and improvements therefore does not warrant  
 19 the extraordinary ratemaking device of an adjustor mechanism,<sup>459</sup> but that the Company should  
 20 instead seek recovery of the costs in a rate case where all of the rate case elements can be  
 21 considered.<sup>460</sup>

22 Staff also opposes approval of the IIS. Staff's witness testified that ordinary infrastructure  
 23

24 <sup>452</sup> Direct Testimony of Company witness Buls (Exh. A-5) at 4-6.

25 <sup>453</sup> Phase II Tr. at 15-22.

26 <sup>454</sup> *Id.*

27 <sup>455</sup> Co. Reply Br. at 24.

28 <sup>456</sup> *Id.*

<sup>457</sup> RUCO Reply Br. at 14.

<sup>458</sup> RUCO Br. at 36.

<sup>459</sup> *Id.* at 33, 36.

<sup>460</sup> RUCO Reply Br. at 14.

1 improvements of the types contemplated by the Company's proposal should instead be handled in  
 2 the normal fashion through a rate case after making the investment.<sup>461</sup> Like RUCO, Staff does not  
 3 believe that the Company has offered any reasons to justify its request of extraordinary treatment of  
 4 routine plant in service improvements.<sup>462</sup>

5 Staff and RUCO both argue that while the Commission has approved surcharge mechanisms  
 6 in circumstances such as the imposition of arsenic treatment standards by the U. S. Environmental  
 7 Protection Agency ("EPA") which have required significant investment by water companies, that the  
 8 Commission has reserved the use of adjustment mechanisms to extraordinary circumstances to  
 9 mitigate the effect of uncontrollable price volatility or uncertainty in the marketplace.<sup>463</sup>

10 The Company admits the surcharge would cover routine investments in such items as meters,  
 11 mains, hydrants, tanks and booster stations, and while the Company proposed a cap on the increase  
 12 between rate cases, the Company has not quantified the amount of the proposed surcharge.<sup>464</sup> We  
 13 agree with RUCO and Staff that the recovery of expenditures for plant additions and improvements  
 14 does not warrant the extraordinary ratemaking device of an adjuster mechanism, and will therefore  
 15 not grant the request for institution of an IIS.

#### 16 C. Anthem/Agua Fria Water District Facilities Hook-Up Fee Tariff

17 Staff proposed several revisions to the Company's hook-up fee tariff for the Anthem/Agua  
 18 Fria Wastewater district to include certain reporting requirements now required by the Commission,  
 19 and to add additional lateral fees.<sup>465</sup> The Company accepted the modifications.<sup>466</sup> Staff's proposed  
 20 revisions are reasonable, and the Company should file revised tariffs conforming with those  
 21 appearing in Hearing Exhibit S-7 at DMH-3, Figure 6 and DMH-4, Figure 7 at the time it files new  
 22 schedules of rates and charges.

23  
 24  
 25  
 26 <sup>461</sup> Direct Testimony of Staff witness Jeffrey Michlik (Exh. S-15) at 9.

<sup>462</sup> *Id.*

<sup>463</sup> Staff Br. at 11; RUCO Br. at 33.

<sup>464</sup> Phase II Tr. at 433-434.

<sup>465</sup> Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at DMH-3, Figure 6 and DMH-4, Figure 7.

<sup>466</sup> Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 18.

**D. Depreciation Rates**

Staff recommends that the Company be required to use the depreciation rates delineated by district on the schedule attached hereto and incorporated herein as Exhibit C. Staff's recommendation is reasonable and will be adopted.

\* \* \* \* \*

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

**FINDINGS OF FACT****Procedural History**

1. On July 2, 2009, Arizona-American filed with the Commission an application for rate increases for its Anthem Water district, Sun City Water district, Anthem/Agua Fria Wastewater district, Sun City Wastewater district and Sun City West Wastewater district. The application was accompanied by the pre-filed direct testimony of eleven Company witnesses.

2. On July 13, 2009, Arizona-American filed a supplement to its application.

3. On August 21, 2009, Arizona-American filed an additional supplement to its application.

4. On August 24, 2009, Staff filed a Letter of Sufficiency indicating that Arizona-American has satisfied the requirements of A.A.C. R14-2-103 and classifying the Company as a Class A utility.

5. On August 26, 2009, a procedural order was issued setting a procedural conference to provide an opportunity for discussion of a hearing schedule, public notice, and other procedural issues prior to the issuance of a rate case procedural order.

6. On August 27, 2009, RUCO filed an Application to Intervene, which was granted at the procedural conference held on September 3, 2009.

7. On September 2, 2009, the procedural conference was convened as scheduled. Appearances were entered by counsel for the Company, RUCO, and Staff. At the procedural



1 conference, the Company indicated its plans to file a separate rate consolidation application.<sup>467</sup>  
2 Based on that indication, the issue of appropriate customer notice of a rate consolidation proposal  
3 was brought to the attention of the parties present.<sup>468</sup> The procedural conference was recessed to  
4 allow the parties time to meet and discuss an appropriate form of notice.  
5

6 8. On September 3, 2009, the procedural conference reconvened as requested by the  
7 parties. The Company stated that it intended to proceed with the application as filed, and not to file  
8 the rate consolidation application discussed the previous day.<sup>469</sup> The Company agreed to prepare a  
9 form of public notice of the application in cooperation with RUCO and Staff, and to file it for  
10 consideration.

11 9. On September 14, 2009, Arizona-American filed a proposed form of notice as was  
12 discussed at the September 2 and 3, 2009 procedural conference. The filing indicated that Staff had  
13 found it acceptable and that RUCO did not expect to have comments on it. The proposed form of  
14 notice made no mention of rate consolidation and was to be provided only to customers of the  
15 Anthem Water district, Sun City Water district, Anthem/Agua Fria Wastewater district, Sun City  
16 Wastewater district and Sun City West Wastewater district.

17 10. On September 24, 2009, a procedural order was issued setting a hearing on the  
18 application for April 19, 2010, setting associated procedural deadlines, and requiring the Company  
19 to provide public notice of the application. The Company was ordered to provide notice of the  
20 application in the form proposed by the Company and agreed to by Staff.

21 11. On November 3, 2009, the Council filed an Application to Intervene, which was  
22 granted by procedural order issued November 19, 2009.

23 12. On December 8, 2009, Decision No. 71410 was issued in the 08-0227 Docket.  
24 Decision No. 71410 ruled on the Company's previous rate application for its Agua Fria Water  
25 district, Havasu Water district, Mohave Water and Mohave Wastewater districts, Paradise Valley  
26 Water district, Sun City West Water district and Tubac Water district. Decision No. 71410 stated

27 <sup>467</sup> Transcript of September 2, 2009 Procedural Conference at 5.

28 <sup>468</sup> *Id.* at 14-20.

<sup>469</sup> *Id.* at 27.

that Docket No. 08-0227 would "remain open for the limited purpose of consolidation in the Company's next rate case with a separate docket in which a revenue-neutral change to rate design of all Arizona-American Water Company's water districts or other appropriate proposals or all Arizona-American's water and wastewater districts or other appropriate proposals may be considered simultaneously, after appropriate public notice, with appropriate opportunity for informed public comment and participation."<sup>470</sup>

13. On December 21, 2009, the Company filed affidavits of publication.

14. On December 29, 2009, the Company filed an affidavit of customer notice, indicating that notice was provided as a bill insert to customers in the Company's Anthem Water district, Sun City Water district, Anthem/Agua Fria Wastewater district, Sun City Wastewater district, and Sun City West Wastewater district.

15. On January 8, 2010, Mr. W.R. Hansen filed a Motion to Intervene.

16. On January 8, 2010, a Motion to Intervene was filed by PORA's President.

17. On January 11, 2010, a Motion to Intervene was filed by Anthem Golf's General Manager.

18. On January 20, 2010, the Company docketed a Notice of Filing indicating that it had provided to Staff, RUCO, and all intervenors a CD containing a rate consolidation spreadsheet including formulas and databases to model different consolidation scenarios.

19. On January 22, 2010, notice was filed in this docket that PORA's Board of Directors had specifically authorized Larry Woods, its President, to represent it as an intervenor in this matter.

20. By procedural order issued January 25, 2010, PORA was granted intervention, and in the discretion of the Commission, pursuant to Rule 31(d)(28) of the Rules of the Arizona Supreme Court, Larry Woods was allowed to represent PORA before the Commission for purposes of this proceeding.

21. On January 25, 2010, Staff filed a Motion for Extension, requesting an extension of time to March 22, 2010, to file its rate design testimony, which was due to be filed by Staff and

<sup>470</sup> Decision No. 11410 at 78.

1 intervenors on March 8, 2010. The Motion for Extension indicated that the Company had agreed to  
2 Staff's proposed extension of time.

3  
4 22. By procedural order issued February 2, 2010, the deadlines for Staff and intervenors  
5 to file rate design testimony, and for the Company to file rebuttal thereto, were extended. The  
6 February 2, 2010 procedural order granted intervention to Mr. W.R. Hansen.

7 23. On February 2, 2010, WUAA filed a Motion to Intervene, which was granted by  
8 procedural order issued February 16, 2010.

9 24. On February 18, 2010, RUCO filed a Motion to Extend the Time to File its Direct  
10 Required Revenue Testimony, requesting a one week extension of time for RUCO to file its direct  
11 testimony on issues other than rate design due to the amount of discovery on issues that had required  
12 analysis, and indicating that counsel for the Company had informed RUCO that it did not object to  
13 RUCO's proposed extension of time.

14 25. By procedural order issued February 19, 2010, RUCO's time extension request was  
15 granted.

16 26. On February 19, 2010, a letter was filed by W.R. Hansen objecting to WUAA having  
17 been granted intervention.

18 27. On February 22, 2010, Brownstein Hyatt Farber Schreck, LLP filed a Notice of  
19 Appearance of Counsel for Anthem Golf indicating that its *pro hac vice* admission was pending.

20 28. On February 22, 2010, the direct testimony of Anthem Golf's witness Desi Howe was  
21 docketed.

22 29. On February 24, 2010, a revised version of the letter filed by W.R. Hansen on  
23 February 19, 2010 was filed.

24 30. On February 24, 2010, RUCO filed a Notice of Disclosure indicating that its Director  
25 is the daughter of a member of the Anthem Community Council's Board of Directors.

26 31. On February 26, 2010, Staff filed a Request for an Extension of Time to File Direct  
27 Testimony, requesting an additional one week extension of time to file its direct testimony in this  
28 case due to new unresolved issues related to plant in one of the Company's districts, and that Staff

1 might need to request additional time, depending on information received from the Company.

2  
3 32. On March 1, 2010, a procedural order was issued granting the requested time  
4 extension and ordering Staff to convene representatives of all the parties to this case in order to  
5 discuss possible changes to other filing deadlines in this proceeding, and to request a procedural  
6 conference at which alternative scheduling proposals might be discussed by all parties if necessary.

7 33. On March 1, 2010, the Resorts filed a Motion to Intervene. The Resorts are  
8 customers of the Company's Paradise Valley Water district. In the filing, the Resorts stated that on  
9 February 10, 2010, the Resorts learned that this case was pending, and were provided an agenda to a  
10 meeting at the offices of the Company entitled "Rate Consolidation Scenarios." The Resorts  
11 attached a copy of the agenda to their Motion to Intervene, and stated that it informed them that Staff  
12 would be making a rate consolidation proposal on March 22, 2010, in this docket, and that  
13 responsive testimony to Staff's proposal would be due on or about April 5, 2010. The Resorts stated  
14 that February 10, 2010, was the first time that the Resorts had notice that a possible consolidated rate  
15 structure would be developed for the Commission's consideration in this case that would then be  
16 applied to the Company's other districts. The Resorts noted that there might be other Arizona-  
17 American customers in other districts that had not been provided notice of this proceeding, and  
18 might be directly and substantially affected by rate consolidation. The Resorts requested a waiver of  
19 the intervention deadline based upon lack of notice, and that they be granted intervention.

20 34. On March 2, 2010, the Council filed its response to Staff's February 26, 2010  
21 Request for an Extension of Time to File Direct Testimony.

22 35. On March 5, 2010, Arizona-American filed its Response to the Resorts' Motion to  
23 Intervene and Request for Additional Intervention. In its Response, Arizona-American did not  
24 object to the granting of intervention and also requested that the intervenors from the 08-0227  
25 Docket be granted intervention in this case.<sup>471</sup>

26  
27 <sup>471</sup> The following parties were intervenors in the 08-0227 Docket: RUCO, Clearwater Hills Improvement Association  
28 ("Clearwater Hills"), the Town of Paradise Valley ("Town"), George E. Cocks, Patricia A. Cocks, Nicholas Wright,  
Raymond Goldy, Lance Ryerson, Patricia Elliott, Boyd Taylor, Keith Doner, Hallie McGraw, Rebecca M. Szimhardt,  
Wilma E. Miller, Joe M. Souza, Steven D. Colburn, Shanni Ramsay, Dennis Behmer, Ann Robinett, Betty Newland,

36. On March 5, 2010, Staff filed a Motion for Extension and Request for Procedural Conference. Staff stated that in accordance with the March 1, 2010 Procedural Order, Staff met with the parties to discuss any proposed schedule changes. Staff included a proposed schedule in its filing.

37. On March 8, 2010, the Council filed its Support for the Commission Staff's Motion for Extension and Request for Procedural Conference.

38. On March 8, 2010, the Council filed the direct testimony of Council witness Dan L. Neidlinger.

39. On March 8, 2010, Staff filed the direct testimony of Staff witnesses Gerald Becker, Dorothy Hains, Juan Manrique and Garry McMurry.

40. On March 8, 2010, RUCO filed the direct testimony of RUCO witnesses William A. Rigsby and Ralph C. Smith.

41. On March 9, 2010, a procedural order was issued granting the Resorts' Motion to Intervene and Staff's Motion for Extension and Request for Procedural Conference. The procedural order stated that in light of the Resorts' indication that Staff planned to file a rate consolidation proposal with its rate design testimony in this docket, the notice issues initially raised at the September 2, 2009, procedural conference must be properly addressed. A procedural conference was set to commence on March 12, 2010, for the purpose of discussing proper and appropriate notice related to any rate consolidation proposal made in this docket.

42. On March 10, 2009, Thomas J. Ambrose filed a letter in this docket requesting that his name be removed for all intervenor listings related to any and all dockets pertaining to the Arizona-American Water Company, including but not limited to this docket.

43. On March 12, 2010, Paradise Valley filed a Motion to Intervene, which stated that the first time it had notice that a possible consolidated rate structure would be developed for the Commission's consideration in this case that would then be applied to the other districts was

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Don Grubbs, Liz Grubbs, Mike Kleman, Jacquelyn Valentino, Louis Wilson, Ikuko Whiteford, Marshall Magruder, the Camelback Inn and Sanctuary on Camelback Mountain, Tom Soukwell, Andy Panasuk, Thomas J. Ambrose, and PORA.

1 February 10, 2010.

2  
3 44. On March 12, 2010, the procedural conference was convened as scheduled.  
4 Appearances were entered through counsel for the Company, the Council, the Resorts, RUCO, and  
5 Staff. Counsel for Paradise Valley also appeared, and was granted intervention. At the procedural  
6 conference, Staff confirmed that it planned to file rate consolidation proposals with testimony on  
7 March 29, 2010. Staff stated that while it was unknown at that time what Staff's recommendation  
8 would be, any Staff rate consolidation proposal would likely affect customers in all of Arizona-  
9 American's districts. Some parties present expressed the concern that a solution to the rate  
10 consolidation notice issue should not delay the scheduled April 19, 2010, commencement of the  
11 hearing on the Company's application. The parties were informed that in order to allow an  
12 appropriate opportunity for informed public comment, intervention, and full participation of any  
13 party wishing to participate in the rate consolidation portion of the upcoming hearing, that portion of  
14 the hearing would have to be delayed. Staff was directed to proceed with its proposed March 29,  
15 2010, filing of testimony and exhibits on rate design/rate consolidation, and the Company was  
16 directed to file its rebuttal testimony on rate design/rate consolidation on April 5, 2010, as proposed.  
17 The parties were informed that a procedural schedule for the filing of intervenors' responsive  
18 testimony to rate design/rate consolidation testimony would be forthcoming. The Company agreed  
19 to draft a form of public notice for provision to all its customers, and to circulate the draft among the  
20 parties for comments prior to filing an agreed-upon form of notice by March 19, 2010. Due to the  
21 need to provide public notice to all customers, the Company agreed that further consideration of the  
22 Company's request for additional intervention was not necessary.

23 45. On March 15, 2010, Robert J. Saperstein, local counsel for Anthem Golf, filed a  
24 Motion to Associate Counsel *Pro Hac Vice*.

25 46. Also on March 15, 2010, the Council docketed a Notice of Filing Revised Exhibit.

26 47. On March 16, 2010, the Company filed a Notice of Filing Form of Notice. The  
27 Company indicated that it had circulated the attached proposed form of notice to all parties, and had  
28 incorporated all comments received from the parties at the time of filing.

1  
2 48. On March 18, 2010, a procedural order was issued bifurcating the hearing in this  
3 matter into two phases, with Phase II to include Commission consideration of rate design and rate  
4 consolidation issues, and setting the hearing on Phase II issues to commence on May 18, 2010. The  
5 procedural order directed the Company to mail to each of its customers in all its districts public  
6 notice of the bifurcation, the new intervention deadline for Phase II, and the hearing dates and filing  
7 deadlines for both Phase I and Phase II of the proceedings. The ordered form of notice was based on  
8 the Company's March 16, 2010 filing. The notice stated that intervenors who would be participating  
9 in Phase II of the hearing would be required to appear at the prehearing conference scheduled for  
10 April 16, 2010. The procedural order also granted admission *pro hac vice* to Bradley J. Herrema.

11 49. On March 19, 2010, W.R. Hansen docketed comments on the proposed form of  
12 notice.

13 50. On March 22, 2010, the Company filed the rebuttal testimony of its witnesses Paul  
14 Townsley, Thomas M. Broderick, Joseph E. Gross, Sandra L. Murrey, Miles H. Kiger, Linda J.  
15 Gutowski and Bente Villadsen.

16 51. On March 23, 2010, the Company filed revised rebuttal schedules in support of the  
17 positions of its witnesses' rebuttal testimony filed on March 22, 2010.

18 52. On March 23, 2010, a procedural order was issued setting a public comment session  
19 to be held by Commissioners in Anthem, Arizona, on April 7, 2010, in order to allow customers of  
20 Arizona-American to provide public comment for the record in this case at Anthem, and ordering  
21 the Company to provide public notice thereof.

22 53. On March 24, 2010, Marshall Magruder filed a Motion to Intervene, which was  
23 granted by procedural order issued April 8, 2010.

24 54. On March 29, 2010, Staff filed the direct testimony of its witness Jeffrey A. Michlik  
25 on rate design and rate consolidation.

26 55. On March 30, 2010, Staff filed the direct testimony of its witness Elijah O. Abinah on  
27 rate design and rate consolidation.

28 56. On March 30, 2010, the Company filed a Notice of Filing Affidavit of Customer

1 Notice as required by the March 18, 2010 procedural order.

2 57. On March 31, 2020, the Company requested issuance of a procedural order allowing  
3 its witness Bente Villadsen to appear telephonically at the hearing. The request was granted by  
4 procedural order issued April 13, 2010.

5 58. On April 1, 2010, Arizona-American filed a Motion to Extend Deadline to File  
6 Rebuttal Testimony, in which the Company requested two additional days, until April 7, 2010, to  
7 file its rebuttal testimony on the issue of rate design, including Staff's rate consolidation proposals.  
8 Arizona-American indicated in its request that none of the parties had an objection to the extension.

9 59. On April 2, 2010, a procedural order was issued granting the Company's request for a  
10 deadline extension.

11 60. On April 6, 2010, DMB filed a Motion to Intervene.

12 61. On April 7, 2010, W.R. Hansen filed his rate design and rate consolidation rebuttal  
13 testimony.

14 62. On April 7, 2010, the Company filed the rate design and rate consolidation rebuttal  
15 testimony of its witnesses Thomas M. Broderick and Constance E. Heppenstall.

16 63. On April 7, 2010, the Commission conducted a public comment as scheduled in  
17 Anthem, Arizona.

18 64. On April 13, 2010, Larry D. Woods filed a Motion to Intervene.

19 65. On April 14, 2010, Corte Bella and W. R. Hansen each filed a Motion to Intervene.

20 66. On April 14, 2010, Anthem Golf filed a Notice of Errata.

21 67. On April 15, 2010, Philip H. Cook filed a Motion to Intervene.

22 68. On April 15, 2010, the Company filed a Notice of Adoption of Testimony and  
23 Certain Corrections.

24 69. On April 15, 2010, the Council filed the surrebuttal testimony of its witness Dan L.  
25 Neidlinger.

26 70. On April 15, 2010, Staff filed the surrebuttal testimony of its witnesses Gerald  
27 Becker, Dorothy Hains and Garry McMurry.  
28



1 71. On April 15, 2010, the Company filed a Notice of Filing Testimony Summaries.

2 72. On April 15, 2010, RUCO filed the surrebuttal testimony of its witnesses William A.  
3 Rigsby and Ralph C. Smith.

4 73. On April 16, 2010, RUCO filed the revised surrebuttal testimony of its witness  
5 William A. Rigsby.

6 74. On April 16, 2010, the Council filed a Prehearing Memorandum on Disputed Refund  
7 Payment Issue.

8 75. On April 16, 2010, the prehearing conference was held as scheduled. During the  
9 prehearing conference, entities who had timely filed requests for intervention in order to participate  
10 in Phase II of the hearing in this matter appeared. The parties requesting intervention in Phase II of  
11 this proceeding were informed that their participation would be limited to the procedural parameters  
12 set forth in the March 18, 2010 procedural order, and that aside from the effects of possible rate  
13 consolidation, the rate designs of the Company's districts other than its Anthem Water District, Sun  
14 City Water District, Anthem/Agua Fria Wastewater District, Sun City Wastewater District, and Sun  
15 City West Wastewater District will not be revisited in this proceeding.

16 76. On April 19, 2010, a procedural order was issued granting intervention to DMB,  
17 Larry D. Woods, Corte Bella and Philip H. Cook subject to the procedural parameters set forth in the  
18 March 18, 2010 procedural order.

19 77. On April 19, 2010, the Council filed Summaries of Direct and Surrebuttal Testimony  
20 of Dan. L. Neidlinger.

21 78. On April 19, 2010, Phase I of the hearing in this matter commenced.

22 79. On April 20, 2010, RUCO filed a Notice of Filing Testimony Summary.

23 80. On April 20, 2010, Staff filed a Notice of Filing Testimony Summaries.

24 81. On April 20, 2010, Senator David Braswell, State Senator for Legislative District 6,  
25 filed a letter stating that he was opposed to the Company's proposed water and sewer rate increases  
26 for its Anthem customers.

27 82. On April 21, 2010, Staff filed a Notice of Filing Testimony Summaries.  
28

1  
2 83. On April 22, 2010, a filing signed by "Glenn W. Smith, Treasurer," and "Richard Alt,  
3 Leader," was docketed. The filing requested intervention for Scottsdale Citizens for Sustainable  
4 Water ("SWAT"), and stated that SWAT is a representative for 17 homeowners associations.

5 84. On April 27, 2010, Arizona-American filed its Response to Motion to Intervene in  
6 which it requested that SWAT's Motion to Intervene be denied. The Company stated that the  
7 intervention request was not docketed until April 22, 2010, well past the April 15, 2010, deadline for  
8 intervention of Phase II of this proceeding. Arizona-American also stated that contrary to the  
9 requirements of Rule 31(d)(28) of the Rules of the Arizona Supreme Court, it did not appear from  
10 the filing that SWAT had authorized representation by a lay person in this proceeding,

11 85. On April 27, 2010, RUCO filed a Notice of Filing Testimony Summaries.

12 86. On April 27, 2010, W.R. Hansen filed a Notice of Errata.

13 87. On April 29, 2010, Phase I of the hearing in this matter concluded.

14 88. On May 3, 2010, a letter from the Commission's Utilities Division Director was  
15 docketed. In the letter, the Utilities Division Director recommended and requested that a public  
16 comment session be scheduled in Sun City, Arizona due to the number of requests from customers  
17 of the Company's Sun City Water Division for a public comment session in Sun City regarding the  
18 pending rate case and the proposed rate consolidation, as well as the number of written complaints  
19 and/or inquiries received from Sun City Water customers.

20 89. On May 3, 2010, a procedural order was issued scheduling a local public comment  
21 session to be held by the Commissioners on May 17, 2010, in Sun City, Arizona in order to allow  
22 customers to make comments regarding the pending rate case and the proposed rate consolidation.

23 90. On May 3, 2010, the Resorts filed the rate design and rate consolidation direct  
24 testimony of their witness John S. Thornton.

25 91. On May 3, 2010, RUCO filed the rate design and rate consolidation direct testimony  
26 of its witnesses Jodi A. Jerich and Rodney L. Moore.

27 92. On May 3, 2010, the Council filed the rate design and rate consolidation direct  
28 testimony of its witness Dan L. Neidlinger.

1           93.     On May 3, 2010, Paradise Valley filed the rate design and rate consolidation direct  
2 testimony of its witness Paradise Valley Town Manager James C. Bacon.

3           94.     On May 3, 2010, W.R. Hansen filed his rate design and rate consolidation direct  
4 testimony.

5           95.     On May 3, 2010, Marshall Magruder filed his rate design and rate consolidation  
6 direct testimony.

7           96.     On May 3, 2010, Larry D. Woods filed his rate design and rate consolidation direct  
8 testimony.

9           97.     On May 3, 2010, Anthem Golf filed the rate design and rate consolidation testimony  
10 of its witness Desi Howe.

11           98.     On May 4, 2010, RUCO filed a Notice of Errata.

12           99.     On May 4, 2010, the Company filed a Motion for Protective Order.

13           100.    On May 5, 2010, the Company filed a Notice of Filing Form of Protective Order.

14           101.    On May 5, 2010, the same filing docketed on April 22, 2010 was filed, but with an  
15 additional page attached. The attached page stated in part that "... SWAT has authorized Richard  
16 Alt, President and Glenn Smith, Treasurer, to file necessary papers to qualify as Interveners in the  
17 Rate Consolidation Request of Arizona-American Water Company ..."

18           102.    On May 6, 2010, a procedural order was issued conditionally granting intervention to  
19 SWAT. SWAT's intervention was made conditional on SWAT filing, no later than May 17, 2010, a  
20 document demonstrating compliance with the conditions required by Rule 31(d)(28) of the Rules of  
21 the Arizona Supreme Court, or in the alternative, filing no later than May 17, 2010, a notice of  
22 appearance of counsel. The procedural order further provided that if SWAT filed the required  
23 documents to make its conditional intervention effective, it would be allowed to participate in this  
24 proceeding through its appointed representative, subject to the parameters of the March 18, 2010  
25 procedural order issued in this docket. The procedural order stated that in the event SWAT did not  
26 file the required documents to make its conditional intervention effective, its individual members  
27 could appear at the commencement of Phase II of this proceeding on May 18, 2010, and orally  
28

1 provide public comment on their own behalf.

2 103. Following issuance of the May 6, 2010 procedural order, no further filings were made  
3 by Glenn W. Smith, Richard Alt, or any other person representing SWAT.

4 104. On May 6, 2010, a procedural order was issued approving the protective order which  
5 was attached thereto as Exhibit A.

6 105. Parties filing executed copies of the protective order include the Council, W.R.  
7 Hansen, Marshall Magruder, RUCO, and Staff. The Company also filed copies of the protective  
8 order executed by Arizona Court Reporting Service.

9 106. On May 6, 2010, the Company filed a late-filed exhibit consisting of email  
10 correspondence between the Company and the Daisy Mountain Fire District.

11 107. On May 7, 2010, the Company filed the redacted testimony of its witness James  
12 Jenkins regarding the impact on the Company of a proposal made by the Council's witness Dan L.  
13 Neidlinger to phase in the Pulte advance repayments made during the 2008 test year and March  
14 2010.

15 108. On May 11, 2010, RUCO filed a late-filed exhibit regarding the Company's Arizona  
16 pension costs.

17 109. On May 11, 2010, Paradise Valley filed a Notice of Errata.

18 110. On May 11, 2010, the Company filed an objection to the revenue requirement  
19 testimony of RUCO's witness Rodney L. Moore set forth on page 5 of Mr. Moore's rate design  
20 testimony.

21 111. On May 14, 2010, DMB filed a Notice of Filing Summary of Testimony.

22 112. On May 14, 2010, the Company filed the rate design and rate consolidation rebuttal  
23 testimony of Company witnesses Thomas M. Broderick and Constance E. Heppenstall.

24 113. On May 14, 2010, Marshall Magruder filed his rate design and rate consolidation  
25 rebuttal testimony.

26 114. On May 17, 2010, the Company filed a Notice of Filing Testimony Summaries.

27 115. On May 14, 2010, Marshall Magruder filed a Summary of Testimony.  
28

116. On May 18, 2010, the Council filed a Notice of Filing Testimony Summary.

117. On May 18, 2010, Anthem Golf filed a Notice of Filing Testimony Summary.

118. On May 18 and 19, 2010, the Council filed Testimony Summaries.

119. On May 18, 2010, Phase II of the hearing in this matter commenced as scheduled.

120. On May 19, 2010, the Council filed a copy of a May 17, 2010 letter from Jack Noblitt, President of its Board of Directors, to Jodi L. Jerich, Director of RUCO.

121. On May 20, 2010, RUCO filed a Notice of Filing Testimony Summaries.

122. On May 21, 2010, Staff filed a Notice of Filing Testimony Summaries.

123. On May 26, 2010, the Company filed as a late-filed exhibit a description of its community outreach in relation to rate consolidation.

124. On May 27, 2010, the Company filed the rate consolidation scenarios requested by Commissioner Mayes during Phase II of the hearing.

125. On June 3, 2010, Phase II of the hearing in this matter concluded.

126. On June 4, 2010, Supervisor Tom Sockwell, Mohave County District 2 Supervisor, filed a letter in opposition to rate consolidation.

127. On June 9, 2010, the Company filed as a late-filed exhibit its responses to Staff's data requests relating to rate consolidation.

128. On June 11, 2010, the Company filed its revenue requirement final schedules.

129. On June 17, 2010, the Company filed the redacted version of the evidentiary hearing transcript Volume 3, Phase II, dated May 20, 2010.

130. On June 18, 2010, Staff filed its revenue requirement final schedules.

131. On June 18, 2010, the Council filed its revenue requirement final schedules.

132. On June 22, 2010, a letter from the Sun City Grand Community Association ("Association") was docketed. The Association's letter requested that "either the district of which the Association is a part (the Agua Fria Water District) be permanently removed from the rate consolidation proposal, or that the Association be granted a reasonable extension of time to file a motion to intervene in this matter."

1 133. On June 24, 2010, RUCO filed its revenue requirement final schedules.

2 134. On June 25, 2010, the Company filed a Response to the Association's June 22, 2010  
3 filing. The Company viewed the June 22, 2010 letter as a request for intervention, and  
4 recommended that such request be denied as untimely. The Company further noted that intervention  
5 is not necessary for the Association to express its opposition to consolidation  
6

7 135. On June 25, 2010, Staff filed its rate design and rate consolidation final schedules.

8 136. On June 25, 2010, the Company filed its stand-alone rate design final schedules.

9 137. On June 25, 2010, the Resorts filed their rate design and rate consolidation final  
10 schedules.

11 138. On June 28, 2010, a June 24, 2010, letter from Jack Noblitt, President of the  
12 Council's Board of Directors, to the Commissioners and Mr. Broderick was filed.

13 139. On June 28, 2010, Marshall Magruder filed final rate design and rate consolidation  
14 schedules.

15 140. On June 30, 2010, the Company filed a Notice of Additional Town Hall Meetings  
16 indicating that it had scheduled additional town hall meetings in Lake Havasu City (July 6, 2010),  
17 Bullhead City (July 7, 2010), Sun City (July 9, 2010), Scottsdale (July 12, 2010), Tubac (July 13,  
18 2010), Surprise (July 14, 2010), Sun City West (July 15, 2010), and Anthem (July 26, 2010), to  
19 discuss the issue of rate consolidation.

20 141. On June 30, 2010, a copy of the June 22, 2010, letter docketed by the Sun City Grand  
21 Community Association was mailed to all parties of record.

22 142. On July 1, 2010, the Company filed revised revenue requirement and stand-alone  
23 rate design schedules for its Sun City Wastewater district.

24 143. On July 2, 2010, the Council filed a Notice of Filing Rate Design Schedules.

25 144. On July 6, 2010, the Company filed a notice of change of address for its July 7, 2010  
26 town hall meeting on rate consolidation issues for Bullhead City.

27 145. On July 6, 2010, the Company filed revised revenue requirement schedules for its  
28 Sun City Water district.

1 146. On July 8, 2010, the Council filed a Notice of Errata to its June 28, 2010 filing.

2 147. On July 12, 2010, Staff filed a Notice of Errata Regarding Rate Design Schedules for  
3 the Sun City Water District.

4 148. On July 12, 2010, a filing was docketed by Ekmark & Ekmark, LLC. The filing  
5 stated that the firm represented the Association with respect to matters of general counsel, and that  
6 the Association had retained different counsel to represent the Association with respect to this  
7 matter. The July 12, 2010 filing stated that the June 22, 2010 filing was made "on behalf of the  
8 Association in order to provide a public comment with respect to the pending water rate case."

9 149. On July 14, 2010, a procedural order was issued indicating that that the Association's  
10 June 22, 2010, letter expressing its opposition to rate consolidation in this proceeding would be  
11 considered public comment by the Association in the record of this case.

12 150. On July 16, 2010, closing briefs were filed by the Company, the Council, Paradise  
13 Valley, W.R. Hansen, Larry Woods, Marshall Magruder, DMB, Corte Bella, RUCO, and Staff.

14 151. On July 20, 2010, Paradise Valley filed a Notice of Errata.

15 152. On July 30, 2010, the Company filed a Notice Regarding Town Hall Meetings  
16 indicating that it had completed the town hall meetings set forth in its June 30, 2010 filing. Attached  
17 to the Notice was an example of the slide presentation made at the meetings and the handout  
18 distributed to attendees of the meetings.

19 153. On July 30, 2010, the Company filed a recommendation regarding the administration  
20 of its Sun City district low-income program to condominium and other multi-housing residents, in  
21 addition to the already-eligible single dwelling unit residents.

22 154. On August 6, 2010, reply briefs were filed by the Company, the Council, Anthem  
23 Golf, Marshall Magruder, DMB, Corte Bella, RUCO, and Staff.

24 155. On August 16, 2010, Marshall Magruder filed a Notice of Errata.

25 156. On October 1, 2010, RUCO filed a Notice of Filing Withdrawal of Phase-In  
26 Proposal. RUCO stated that subsequent to filing its closing brief, it became apparent to RUCO that  
27 due to carrying costs and other costs that allow the Company full recovery of its revenue  
28

1 requirement, no version of RUCO's proposal, or modification to it, would actually result in a rate  
2 design more beneficial to Anthem's ratepayers than RUCO's stand-alone rate design, and  
3 accordingly, RUCO withdraws its alternate phase-in proposal.  
4

5 157. On November 2, 2010, a letter dated October 13, 2010 addressed to the  
6 Commissioners from the Council was filed. The letter stated that it listed the Council's enacted and  
7 planned water conservation measures for the Anthem community. The letter invited Commissioners  
8 to contact the Council.

9 158. On November 9, 2010, RUCO and the Council filed a Notice of Joint Filing of  
10 Supplemental Information.

11 159. On November 12, W.R. Hansen filed a Notice of Change of Email Address.

12 160. Approximately 3,681 written public comments were filed in this docket, including  
13 petition signatures, in opposition to the Company's requested rate increases in the districts. Many  
14 comments were related to rate consolidation. While a few public comments were filed in support of  
15 rate consolidation, the great majority of public comments filed expressed opposition to rate  
16 consolidation.

#### 17 Determinations

18 161. Arizona-American is a wholly owned subsidiary of American Water Works, the  
19 largest investor-owned water and wastewater utility in the United States. American Water Works  
20 owns a number of regulated water and wastewater subsidiaries that operate in 32 states, in addition  
21 to non-regulated subsidiaries. American Water Works raises debt capital for its subsidiaries through  
22 its financing subsidiary American Water Capital Corp. Arizona-American operates twelve water  
23 and wastewater systems in Arizona. Arizona-American is Arizona's largest investor-owned water  
24 and wastewater utility, operating twelve water and wastewater systems in Arizona, serving  
25 approximately 150,000 customers located in portions of Maricopa, Mohave, and Santa Cruz  
26 Counties.

27 162. During the test year, the Anthem Water district served approximately 8,700  
28 customers in the Anthem Community, the Sun City Water district served approximately 23,000



customers in Sun City, the Town of Youngtown, and small sections of Peoria and Surprise, the Anthem/Agua Fria Wastewater district served approximately 10,121 customers in the Anthem, Verrado, and Russell Ranch communities, the Sun City Wastewater district served approximately 21,965 customers in Sun City, the Town of Youngtown, and small sections of Peoria and Surprise, and the Sun City West Wastewater district served approximately 14,968 customers in Sun City West and the Corte Bella community.

#### Anthem Water

163. For the Anthem Water district, Applicant recommends a revenue requirement of \$13,455,431, which is an increase of \$5,962,687, or 79.58 percent, over its adjusted test year revenues of \$7,492,744. Applicant's recommendation for the Anthem Water district would result in an approximate \$37.37 increase for the average 5/8 x 3/4 inch water meter residential customer, from \$37.22 per month to \$74.59 per month, or approximately 100.40 percent. Under the Company's proposal, a median usage (8,000 gallons/month) Anthem Water district residential customer on a 5/8 x 3/4-inch meter would experience an increase of \$33.46, approximately 100.39 percent, from \$33.33 per month to \$66.79 per month, or approximately 100.39 percent.

164. For the Anthem Water district, RUCO recommends a revenue requirement of \$12,516,000, which is an increase of \$5,023,268, or 67.04 percent, over its adjusted test year revenues of \$7,492,732. RUCO's recommendation for the Anthem Water district would result in an approximate \$27.34 increase for the average (9,616 gallons/month) 5/8 x 3/4 inch water meter residential customer, from \$37.22 per month to \$64.56 per month, or approximately 73.46 percent. A median usage (8,000 gallons/month) Anthem Water district residential customer on a 5/8 x 3/4-inch meter would experience an increase of \$24.48, approximately 73.45 percent, from \$33.33 per month to \$57.81 per month.

165. For the Anthem Water district, Staff recommends a revenue requirement of \$13,420,925, which is an increase of \$5,928,181, or 79.12 percent, over its adjusted test year revenues of \$7,492,744. Staff's recommendation for the Anthem Water district would result in an approximate \$28.62 increase for the average (9,616 gallons/month) 5/8 x 3/4 inch water meter

1 residential customer, from \$37.22 per month to \$65.84 per month, or approximately 76.90 percent.  
2 A median usage (8,000 gallons/month) Anthem Water district residential customer on a 5/8 x 3/4-  
3 inch meter would experience an increase of \$22.67, approximately 68.02 percent, from \$33.33 per  
4 month to \$56.00 per month. Staff's alternative 5-tier rate design would result in an approximate  
5 \$24.09 increase for the average (9,616 gallons/month) 5/8 x 3/4 inch water meter residential  
6 customer, from \$37.22 per month to \$61.31 per month, or approximately 64.72 percent. A median  
7 usage (8,000 gallons/month) Anthem Water district residential customer on a 5/8 x 3/4-inch meter  
8 would experience an increase of \$18.67, approximately 56.02 percent, from \$33.33 per month to  
9 \$52.00 per month.

10 166. The fair value rate base of the Anthem Water district is \$57,249,836.

11 167. A fair value rate of return for the Anthem Water district of 6.70 percent is reasonable  
12 and appropriate.

13 168. The revenue increases requested by the Applicant for the Anthem Water district  
14 would produce an excessive return on FVRB.

15 169. The gross revenues of the Anthem Water district should increase by \$5,453,750.

16 170. The revenue requirement authorized herein for the Anthem Water district is  
17 \$12,946,494, which is an increase of \$5,453,750, or 72.79 percent, over adjusted test year revenues  
18 of \$7,492,744. The bill effects of the rates adopted herein for Anthem Water district residential  
19 customers are shown in Exhibit A.

20 171. According to Staff, the Maricopa County Environmental Services Division  
21 ("MCESD") has determined that the Anthem Water district is currently delivering water that meets  
22 the water quality standards required by Title 18, Chapter 4 of the Arizona Administrative Code.

23 172. The Anthem Water district is located within the Phoenix Active Management Area  
24 ("AMA") and the Arizona Department of Water Resources ("ADWR") has determined that it is in  
25 compliance with the ADWR requirements governing water providers.

26 173. It is reasonable and in the public interest to authorize the Company to establish a  
27 deferral account to allow it to defer tank maintenance expenses for the Anthem Water district until  
28

the next rate case for the district, at which time the Company may present evidence in support of recovery of the deferred expense amounts for consideration.

#### Sun City Water

174. For the Sun City Water district, Applicant recommends a revenue requirement of \$11,161,011, which is an increase of \$1,877,910, or 20.23 percent, over its adjusted test year revenues of \$9,283,101. Applicant's recommendation for the Sun City Water district would result in an approximate \$4.64 increase for the average (7,954 gallons/month) 5/8 x 3/4 inch water meter residential customers, from \$16.73 per month to \$21.37 per month, or approximately 27.74 percent.

175. For the Sun City Water district, RUCO recommends a revenue requirement of \$9,787,589, which is an increase of \$504,488, or 5.43 percent, over its adjusted test year revenues of \$9,283,101. RUCO's recommendation for the Sun City Water district would result in an approximate \$1.22 increase for the average (7,954 gallons/month) 5/8 x 3/4 inch water meter residential customers, from \$16.73 per month to \$17.95 per month, or approximately 7.29 percent.

176. For the Sun City Water district, Staff recommends a revenue requirement of \$11,126,179, which is an increase of \$1,843,078, or 19.85 percent, over its adjusted test year revenues of \$9,283,101. Staff's recommendation for the Sun City Water district would result in an approximate \$1.42 increase for the average (7,954 gallons/month) 5/8 x 3/4 inch water meter residential customer, from \$16.73 per month to \$18.15 per month, or approximately 8.49 percent. Staff's alternative 5-tier rate design would result in an approximate \$2.16 increase for the average (7,954 gallons/month) 5/8 x 3/4 inch water meter residential customer, from \$16.73 per month to \$18.89 per month, or approximately 12.91 percent.

177. The fair value rate base of the Sun City Water district is \$28,188,865.

178. A fair value rate of return for the Sun City Water district of 6.70 percent is reasonable and appropriate.

179. The revenue increases requested by the Applicant for the Sun City Water district would produce an excessive return on FVRB.

180. The gross revenues of the Sun City Water district should increase by \$1,611,522.

181. The revenue requirement authorized herein for the Sun City Water district is \$10,894,623, which is an increase of \$1,611,522, or 17.36 percent, over its adjusted test year revenues of \$9,283,101.

182. The bill effects of the rates adopted herein for Sun City Water district residential customers are shown on Exhibit A.

183. According to Staff, MCESD has determined that the Sun City Water district is currently delivering water that meets the water quality standards required by Title 18, Chapter 4 of the Arizona Administrative Code.

184. The Sun City Water district is located within the Phoenix AMA and ADWR has determined that it is in compliance with the ADWR requirements governing water providers.

185. It is reasonable and in the public interest to require the Company to reduce water loss in the Sun City Water district's PWS No. 07-099 to below 10 percent before it files its next rate case, CC&N, or financing application for the Sun City Water district, not including currently pending cases, whichever comes first, and to require that the Company continue tracking the water loss for PWS No. 07-099 for three years and submit the data collected every six months, with the first water loss tracking report for PWS No. 07-099 to be filed as a compliance item in this docket within 180 days of this Order.

186. It is reasonable and in the public interest to require the Company to file, within 60 days, or sooner if possible, for review by Staff, an application for approval of changes to the Sun City Low Income Program that generally incorporate the program outlined in Exhibit B, in order to extend the benefit of the Sun City Low Income Program to condominium and other multi-housing dwellers.

187. It is reasonable and in the public interest to require Staff to review the Company's Sun City Low Income Program and to prepare and docket, within 60 days of the Company's filing, a Recommended Order regarding the Company's proposed changes to the Sun City Low Income Program.

188. It is reasonable and in the public interest to authorize the Company to continue the current high block funding mechanism for the Sun City Low Income Program.

**Anthem/Agua Fria Wastewater**

189. For the Anthem/Agua Fria Wastewater district, Applicant recommends a revenue requirement of \$13,929,889, which is an increase of \$5,292,887, or 68.21 percent, over its adjusted test year revenues of \$8,637,002. Applicant's recommendation for the Anthem/Agua Fria Wastewater district would result in an approximate \$38.74 increase for an average water usage (5,632 gallons per month)  $5/8 \times 3/4$  inch water meter residential customer, from \$47.36 per month to \$86.10 per month, or approximately 81.80 percent.

190. For the Anthem/Agua Fria Wastewater district, RUCO recommends a revenue requirement of \$13,684,829, which is an increase of \$5,047,706, or 58.44 percent, over its adjusted test year revenues of \$8,637,123. RUCO's recommendation for the Anthem/Agua Fria Wastewater district would result in an approximate \$28.72 increase for an average water usage (5,632 gallons per month)  $5/8 \times 3/4$  inch water meter residential customer, from \$47.36 per month to \$76.08 per month, or approximately 60.64 percent.

191. For the Anthem/Agua Fria Wastewater district, Staff recommends a revenue requirement of \$13,668,321, which is an increase of \$5,031,198, or 58.25 percent, over its adjusted test year revenues of \$8,637,123. Staff's recommendation for the Anthem/Agua Fria Wastewater district would result in an approximate \$6.69 increase for an average water usage (5,632 gallons per month)  $5/8 \times 3/4$  inch water meter residential customer, from \$47.36 per month to \$54.05 per month, or approximately 14.13 percent.

192. The fair value rate base of the Anthem/Agua Fria Wastewater district is \$45,116,927.

193. A fair value rate of return for the Anthem/Agua Fria Wastewater district of 6.70 percent is reasonable and appropriate.

194. The revenue increases requested by the Applicant for the Anthem/Agua Fria Wastewater district would produce an excessive return on FVRB.

195. The gross revenues of the Anthem/Agua Fria Wastewater district should increase by

1 \$4,657,770.

2  
3 196. The revenue requirement authorized herein for the Anthem/Agua Fria Wastewater  
4 district is \$13,294,893, which is an increase of \$4,657,770, or 53.93 percent, over its adjusted test  
5 year revenues of \$8,637,123.

6 197. The bill effects of the rates adopted herein for Anthem/Agua Fria Wastewater district  
7 residential customers are shown in Exhibit A.

8 198. According to Staff, Anthem/Agua Fria Wastewater district is in full compliance with  
9 Arizona Department of Environmental Quality ("ADEQ") requirements for operation and  
10 maintenance, operator certification, and discharge permit limits.

11 199. It is reasonable and appropriate to approve consolidated rates for the Anthem/Agua  
12 Fria Wastewater district on an interim basis; to keep this docket open for the sole purpose of  
13 considering the design and implementation of stand-alone revenue requirements and rate designs as  
14 set forth in the Agreement reached during the Open Meeting for the Anthem Wastewater district and  
15 Agua Fria Wastewater district; and to require the Company to file, no later than April 1, 2011, an  
16 application supporting consideration of stand-alone revenue requirements and rate designs as set for  
17 the Agreement. Because the Sun City Grand Community Association is served by the Anthem/Agua  
18 Fria Wastewater district and expressed an interest in consolidation issues after the hearing, it should  
19 be provided notice of the application.

20 200. It is reasonable and appropriate to require the Company to file, at the time it files new  
21 schedules of rates and charges, revised hook-up fee tariffs for its Anthem/Agua Fria Wastewater  
22 district that conform with those appearing in Hearing Exhibit S-7 at DMH-3, Figure 6 and DMH-4,  
23 Figure 7.

#### 24 **Sun City Wastewater**

25 201. For the Sun City Wastewater district, Applicant recommends a revenue requirement  
26 of \$7,906,547, which is an increase of \$1,965,520, or 33.08 percent, over its adjusted test year  
27 revenues of \$5,941,027. Applicant's recommendation for the Sun City Wastewater district would  
28 result in an approximate \$5.14 increase for the average 5/8 x 3/4 inch water meter residential

1 customers, from \$13.69 per month to \$18.83 per month, or approximately 37.55 percent.

2 202. For the Sun City Wastewater district, RUCO recommends a revenue requirement of  
3 \$7,435,703, which is an increase of \$1,495,322, or 25.17 percent, over its adjusted test year revenues  
4 of \$5,940,381. RUCO's recommendation for the Sun City Wastewater district would result in an  
5 approximate \$4.01 increase for the average 5/8 x 3/4 inch water meter residential customers, from  
6 \$13.69 per month to \$17.70 per month, or approximately 29.29 percent.

7 203. For the Sun City Wastewater district, Staff recommends a revenue requirement of  
8 \$7,665,720, which is an increase of \$1,725,339, or 29.04 percent, over its adjusted test year revenues  
9 of \$5,940,381. Staff's recommendation for the Sun City Wastewater district would result in an  
10 approximate \$4.37 increase for the average 5/8 x 3/4 inch water meter residential customers, from \$  
11 per month to \$18.06 per month, or approximately 31.92 percent.

12 204. The fair value rate base of the Sun City Wastewater district is \$15,489,977

13 205. A fair value rate of return for the Sun City Wastewater district of 6.70 percent is  
14 reasonable and appropriate.

15 206. The revenue increases requested by the Applicant for the Sun City Wastewater  
16 district would produce an excessive return on FVRB.

17 207. The gross revenues of the Sun City Wastewater district should increase by  
18 \$1,621,157.

19 208. The revenue requirement authorized herein for the Sun City Wastewater district is  
20 \$7,561,538, which is an increase of \$1,621,157, or 27.29 percent, over its adjusted test year revenues  
21 of \$5,940,381.

22 209. The bill effects of the rates adopted herein for Sun City Wastewater district  
23 residential customers are shown in Exhibit A.

24 210. The typical ADEQ compliance status is not applicable for the Sun City Wastewater  
25 district because the Company's system in that district does not include a wastewater treatment plant.  
26 The wastewater collected in the district is transported to a City of Tolleson wastewater treatment  
27 plant for treatment and disposal.  
28

**Sun City West Wastewater**

211. For the Sun City West Wastewater district, Applicant recommends a revenue requirement of \$7,161,933, which is an increase of \$1,500,223, or 26.50 percent, over its adjusted test year revenues of \$5,661,710. Applicant's recommendation for the Sun City West Wastewater district would result in an approximate \$6.54 increase for the average 5/8 x 3/4 inch water meter residential customers, from \$25.01 per month to \$31.55 per month, or approximately 26.15 percent.

212. For the Sun City West Wastewater district, RUCO recommends a revenue requirement of \$6,419,979, which is an increase of \$758,269, or 13.39 percent, over its adjusted test year revenues of \$5,661,710. RUCO's recommendation for the Sun City West Wastewater district would result in an approximate \$3.36 increase for the average 5/8 x 3/4 inch water meter residential customers, from \$25.01 per month to \$28.37 per month, or approximately 13.43 percent.

213. For the Sun City West Wastewater district, Staff recommends a revenue requirement of \$7,137,298, which is an increase of \$1,475,588, or 26.06 percent, over its adjusted test year revenues of \$5,661,710. Staff's recommendation for the Sun City West Wastewater district would result in an approximate \$6.51 increase for the average 5/8 x 3/4 inch water meter residential customers, from \$25.01 per month to \$31.52 per month, or approximately 26.03 percent.

214. The fair value rate base of the Sun City West Wastewater district is \$18,096,538.

215. A fair value rate of return for the Sun City West Wastewater district of 6.70 percent is reasonable and appropriate.

216. The revenue increases requested by the Applicant for the Sun City West Wastewater district would produce an excessive return on FVRB:

217. The gross revenues of the Sun City West Wastewater district should increase by \$1,326,805.

218. The revenue requirement authorized herein for the Sun City West Wastewater district is \$6,988,515, which is an increase of \$1,326,805, or 23.43 percent, over its adjusted test year revenues of \$5,661,710.

219. The bill effects of the rates adopted herein for Sun City West Wastewater district



1 residential customers are shown in Exhibit A.

2  
3 220. According to Staff, the Sun City West Wastewater is in full compliance with ADEQ  
4 requirements for operation and maintenance, operator certification, and discharge permit limits.

5 221. It is reasonable and appropriate to require the Company to utilize the depreciation  
6 rates Staff recommends that are delineated by district on the schedule attached hereto and  
7 incorporated herein as Exhibit C.

8 222. The Company, the Council, RUCO and Staff met during a recess from the Open  
9 Meeting to discuss possible resolution to a phase-in proposal and other issues. The aforementioned  
10 parties agreed to terms as set forth in the discussion of proposed phase-in plans herein.

11 223. It is just and reasonable and in the public interest to adopt the terms of the Agreement  
12 reached by the Company, the Council, RUCO and Staff as set forth herein.

13 224. The Commission believes it is in the public interest for Arizona-American to  
14 conserve groundwater by implementing Best Management Practices for all of its systems not already  
15 required to do so under Decision Nos. 71410 and 70372. We believe the Company should be  
16 required to, within 90 days of the effective date of this Decision, submit ten BMP's for each of these  
17 systems, as a compliance item in this docket, in the form of tariffs that substantially conform to the  
18 templates created by Staff (and available on the Commission's web site) for the Commission's  
19 review and consideration.

### 20 CONCLUSIONS OF LAW

21 1. Arizona-American is a public service corporation pursuant to Article XV of the  
22 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

23 2. The Commission has jurisdiction over Arizona-American and the subject matter of  
24 the application.

25 3. Notice of the proceeding was provided in conformance with law.

26 4. The fair value of Arizona-American's Anthem Water district rate base is  
27 \$57,249,836, and applying a 6.70 percent fair value rate of return on this fair value rate base  
28 produces rates and charges that, with the phase-in agreed to by the Company, are just and

1 reasonable.

2  
3 5. The fair value of Arizona-American's Sun City Water district rate base is  
4 \$28,188,865, and applying a 6.70 percent fair value rate of return on this fair value rate base  
5 produces rates and charges that are just and reasonable.

6 6. The fair value of Arizona-American's Anthem/Agua Fria Wastewater district rate  
7 base is \$45,116,927, and applying a 6.70 percent fair value rate of return on this fair value rate base  
8 produces rates and charges that, with the phase-in agreed to by the Company, are just and  
9 reasonable.

10 7. The fair value of Arizona-American's Sun City Wastewater district rate base is  
11 \$15,489,977, and applying a 6.70 percent fair value rate of return on this fair value rate base  
12 produces rates and charges that are just and reasonable.

13 8. The fair value of Arizona-American's Sun City West Wastewater district rate base is  
14 \$18,096,538, and applying a 6.70 percent fair value rate of return on this fair value rate base  
15 produces rates and charges that are just and reasonable.

16 9. The rates and charges approved herein are just and reasonable.

17 10. The rate design approved herein is just and reasonable.

18 11. It is reasonable and appropriate to approve consolidated rates for the Anthem/Agua  
19 Fria Wastewater district on an interim basis; to keep this docket open for the sole purpose of  
20 considering the design and implementation of stand-alone revenue requirements and rate designs as  
21 set forth in the Agreement reached during the Open Meeting for the Anthem Wastewater district and  
22 Agua Fria Wastewater district; and to require the Company to file, no later than April 1, 2011, an  
23 application supporting consideration of stand-alone revenue requirements and rate designs as set for  
24 the Agreement. Because the Sun City Grand Community Association is served by the Anthem/Agua  
25 Fria Wastewater district and expressed an interest in consolidation issues after the hearing, it should  
26 be provided notice of the application.

27 12. It is reasonable and appropriate to require the Company to file, at the time it files new  
28 schedules of rates and charges, revised hook-up fee tariffs for its Anthem/Agua Fria Wastewater

1 district that conform with those appearing in Hearing Exhibit S-7 at DMH-3, Figure 6 and DMH-4,  
2 Figure 7.

3  
4 13. It is reasonable and in the public interest to authorize the Company to establish a  
5 deferral account to allow it to defer tank maintenance expenses for the Anthem Water district until  
6 the next rate case for the district, at which time the Company present evidence in support of  
7 recovery of the deferred expense amounts for consideration.

8 14. It is reasonable and in the public interest to require the Company to reduce water loss  
9 in the Sun City Water district's PWS No. 07-099 to below 10 percent before it files its next rate  
10 case, CC&N, or financing application for the Sun City Water district, not including currently  
11 pending cases, whichever comes first, and to require that the Company continue tracking the water  
12 loss for PWS No. 07-099 for three years and submit the data collected every six months, with the  
13 first water loss tracking report for PWS No. 07-099 to be filed as a compliance item in this docket  
14 within 180 days of this Order.

15 15. It is reasonable and in the public interest to require the Company to file, within 60  
16 days, or sooner if possible, for review by Staff, an application for approval of changes to the Sun  
17 City Low Income Program that generally incorporate the program outlined in Exhibit B, in order to  
18 extend the benefit of the Sun City Low Income Program to condominium and other multi-housing  
19 dwellers.

20 16. It is reasonable and in the public interest to require Staff to review the Company's  
21 Sun City Low Income Program and to prepare and docket, within 60 days of the Company's filing, a  
22 Recommended Order regarding the Company's proposed changes to the Sun City Low Income  
23 Program.

24 17. It is reasonable and in the public interest to authorize the Company to continue the  
25 current high block funding mechanism for the Sun City Low Income Program.

26 18. It is reasonable and in the public interest to require the Company to utilize the  
27 depreciation rates Staff recommends that are delineated by district on the schedule attached hereto  
28 and incorporated herein as Exhibit C.

1  
2 19. It is reasonable and in the public interest to adopt the terms of the Agreement reached  
3 by the Company, the Council, RUCO and Staff as set forth herein.

4 **ORDER**

5 IT IS THEREFORE ORDERED that Arizona-American Water Company is hereby authorized  
6 and directed to file with the Commission, on or before December 31, 2010, the schedules of rates and  
7 charges attached hereto and incorporated herein as Exhibit A, which shall be effective for all service  
8 rendered on and after January 1, 2011.

9 IT IS FURTHER ORDERED that Arizona-American Water Company shall notify its  
10 customers of the revised schedules of rates and charges authorized herein by means of an insert in  
11 their next regularly scheduled billing in a form and manner acceptable to the Commission's Utilities  
12 Division Staff.

13 IT IS FURTHER ORDERED that the docket in this proceeding shall remain open for the sole  
14 purpose of considering the design and implementation of stand-alone revenue requirements and rate  
15 designs as agreed to in the settlement reached during the Open Meeting for the Anthem Wastewater  
16 district and Agua Fria Wastewater district.

17 IT IS FURTHER ORDERED that Arizona-American Water Company shall file, no later than  
18 April 1, 2011, an application supporting consideration of stand-alone revenue requirements and rate  
19 designs as set forth in the Agreement reached during the Open Meeting for the Anthem Wastewater  
20 district and Agua Fria Wastewater district.

21 IT IS FURTHER ORDERED that the rates approved herein for the Anthem/Agua Fria  
22 Wastewater district are interim rates subject to change pursuant to a Commission determination on  
23 the above-ordered filing.

24 IT IS FURTHER ORDERED that Arizona-American Water Company shall serve a copy of  
25 the above-ordered application on the Sun City Grand Community Association at the time it is  
26 docketed.

27 IT IS FURTHER ORDERED that Arizona-American Water Company shall file, at the time it  
28 files new schedules of rates and charges, revised hook-up fee tariffs for its Anthem/Agua Fria

1 Wastewater district that conform with those appearing in Hearing Exhibit S-7 at DMH-3, Figure 6  
2 and DMH-4, Figure 7.

3  
4 IT IS FURTHER ORDERED that Arizona-American Water Company shall file, within 60  
5 days, or sooner if possible, for review by Staff, an application for approval of changes that generally  
6 incorporate the program outlined in Exhibit B, to the Sun City Low Income Program in order to  
7 extend the benefit of the Sun City Low Income Program to condominium and other multi-housing  
8 dwellers.

9 IT IS FURTHER ORDERED that Staff shall review the Company's Sun City Low Income  
10 Program filing and shall prepare and docket, within 60 days of the Company's filing, a  
11 Recommended Order regarding the Company's proposed changes to the Sun City Low Income  
12 Program.

13 IT IS FURTHER ORDERED that Arizona-American Water Company is hereby authorized to  
14 continue the current high block funding mechanism for the Sun City Low Income Program.

15 IT IS FURTHER ORDERED that Arizona-American Water Company is hereby authorized to  
16 establish a deferral account to allow it to defer tank maintenance expenses for the Anthem Water  
17 district until the next rate case for the Anthem Water district, at which time Arizona-American Water  
18 Company may present evidence in support of recovery of the deferred expense amounts for  
19 consideration.

20 IT IS FURTHER ORDERED that Arizona-American Water Company shall reduce water loss  
21 in the Sun City Water district's PWS No. 07-099 to below 10 percent before it files its next rate case,  
22 CC&N, or financing application for the Sun City Water district, not including currently pending  
23 cases, whichever comes first; and shall continue tracking the water loss for PWS No. 07-099 for three  
24 years and submit the data collected every six months; and shall file within 180 days, with the  
25 Commission's Docket Control, as a compliance item in this docket, the first water loss tracking  
26 report for PWS No. 07-099.

27 IT IS FURTHER ORDERED that the 2007 and 2008 Pulte refund payments are included in  
28 rate base.

1  
2 IT IS FURTHER ORDERED that the revenue requirement for the Anthem districts based on  
3 the 2007 and 2008 Pulte refund payments shall be phased in over a three year period, with the first  
4 phase effective January 1, 2011, the second phase effective January 1, 2012, and the third phase  
5 effective January 1, 2013, at which time the revenue requirement shall equal the revenues authorized  
6 herein.

7 IT IS FURTHER ORDERED that the 2012 and 2013 revenue increases associated with the  
8 phase-in shall be implemented automatically without further Commission action.

9 IT IS FURTHER ORDERED that, consistent with the Agreement, there shall be no recovery  
10 of the carrying costs associated with the reduced revenues and no recovery of the foregone revenues  
11 occasioned by the phase-in.

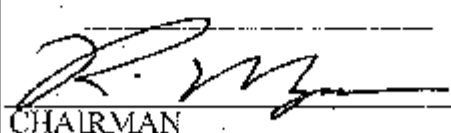
12 IT IS FURTHER ORDERED that Arizona-American Water Company shall utilize the  
13 depreciation rates delineated by district on the schedule attached hereto and incorporated herein as  
14 Exhibit C.

15 IT IS FURTHER ORDERED that Arizona-American Water Company shall develop a  
16 consolidation proposal that includes all of its systems, as well as all of its systems without Sun City,  
17 and shall file those consolidation proposals in a future rate application.  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

IT IS FURTHER ORDERED that for all of its systems not already required to do so under Decision Nos. 71410 and 70372, Arizona-American Water Company shall, within 90 days of the effective date of this Decision, submit ten Best Management Practices for each of these systems, as a compliance item in this docket, in the form of tariffs that substantially conform to the templates created by Staff (and available on the Commission's web site) for the Commission's review and consideration.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

  
CHAIRMAN


  
COMMISSIONER

  
COMMISSIONER

  
COMMISSIONER

  
COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 16th day of January, 2011.

  
ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

1 SERVICE LIST FOR:

ARIZONA-AMERICAN WATER COMPANY  
ANTHEM WATER DISTRICT, SUN CITY WATER  
DISTRICT, ANTHEM/AGUA FRIA WASTEWATER  
DISTRICT, SUN CITY WASTEWATER DISTRICT,  
AND SUN CITY WEST WASTEWATER DISTRICT.

4 DOCKET NOS.:

W-01303A-09-0343 AND SW-01303A-09-0343

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35 Philip H. Cook  
36 10122 West Signal Butte Circle  
37 Sun City, AZ 85373  
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40 Legal Division  
41 ARIZONA CORPORATION COMMISSION  
42 1200 West Washington Street  
43 Phoenix, AZ 85007  
44  
45 Steven M. Olea, Director  
46 Utilities Division  
47 ARIZONA CORPORATION COMMISSION  
48 1200 West Washington Street  
49 Phoenix, AZ 85007

EXHIBIT A  
ANTHEM WATER 2011

**MONTHLY USAGE CHARGE****Residential and Commercial**

5/8" x 3/4" Meter	\$23.70
1" Meter	59.26
1-1/2" Meter	118.51
2" Meter	189.62
3" Meter	379.24
4" Meter	592.56
6" Meter	1,185.12
8" Meter	1,896.19

**Private Fire**

Private Fire 3" Meter	\$10.00
Private Fire 4" Meter	12.50
Private Fire 6" Meter	25.00
Private Fire 8" Meter	40.00
Private Fire 10" Meter	57.50

**COMMODITY CHARGES: (per 1,000 gallons)****Residential (All Meter Sizes)**

First 2,000 gallons	\$1.4221
2,001 to 5,000 gallons	2.8443
5,001 to 9,000 gallons	4.7405
9,001 to 21,000 gallons	6.6367
Over 21,000 gallons	8.0920

**Commercial****5/8 x 3/4" Meter**

First 9,000 gallons	\$4.7405
Over 9,000 gallons	8.0920

**1" Meter**

First 18,000 gallons	\$4.7405
Over 18,000 gallons	8.0920

**1 1/2" Meter**

First 34,000 gallons	\$4.7405
Over 34,000 gallons	8.0920

**2" Meter**

First 53,000 gallons	\$4.7405
Over 53,000 gallons	8.0920

**3" Meter**

First 107,000 gallons	\$4.7405
Over 107,000 gallons	8.0920

**4" Meter**

First 168,000 gallons	\$4.7405
Over 168,000 gallons	8.0920

**6" Meter**

First 340,000 gallons	\$4.7405
Over 340,000 gallons	8.0920

EXHIBIT A  
ANTHEM WATER 2011

**8" Meter**

First 547,000 gallons	\$4.7405
Over 547,000 gallons	8.0920

Interruptible	\$5.2376
Wholesale (Phoenix) OWIJ	0.5102

**SERVICE LINE AND METER INSTALLATION CHARGE:**

(Refundable Pursuant to A.A.C. R14-2-405)

<u>Meter Size</u>	<u>Service Line</u> <u>Charges</u>	<u>Meter Charges</u>	<u>Total Charges</u>
5/8" x 3/4" Meter	\$370.00	\$130.00	\$500.00
3/4" Meter	370.00	205.00	575.00
1" Meter	420.00	240.00	660.00
1-1/2" Meter	450.00	450.00	900.00
2" Turbine	580.00	945.00	1,525.00
2" Compound	580.00	1,640.00	2,220.00
3" Turbine	745.00	1,420.00	2,165.00
3" Compound	765.00	2,195.00	2,960.00
4" Turbine	1,090.00	2,270.00	3,360.00
4" Compound	1,120.00	3,145.00	4,265.00
6" Turbine	1,610.00	4,425.00	6,035.00
6" Compound	1,630.00	6,120.00	7,750.00
Over 6"	Cost	Cost	Cost

**SERVICE CHARGES:**

Reconnection (During business hours)	\$60.00
Reconnection (After business hours)	90.00
Insufficient Funds, NSF Fee	25.00
Customer Requested Meter Reread (if not in error)	10.00
Meter Test Charge (Less than 3% difference)	30.00

EXHIBIT A  
ANTHEM WATER 2012

**MONTHLY USAGE CHARGE****Residential and Commercial**

5/8" x 3/4" Meter	\$25.39
1" Meter	63.47
1-1/2" Meter	126.94
2" Meter	203.11
3" Meter	406.21
4" Meter	634.70
6" Meter	1,269.41
8" Meter	2,031.05

**Private Fire**

Private Fire 3" Meter	\$10.00
Private Fire 4" Meter	12.50
Private Fire 6" Meter	25.00
Private Fire 8" Meter	40.00
Private Fire 10" Meter	57.50

**COMMODITY CHARGES: (per 1,000 gallons)****Residential (All Meter Sizes)**

First 2,000 gallons	\$1.5233
2,001 to 5,000 gallons	3.0466
5,001 to 9,000 gallons	5.0776
9,001 to 21,000 gallons	7.1087
Over 21,000 gallons	8.6675

**Commercial****5/8 x 3/4" Meter**

First 9,000 gallons	\$5.0776
Over 9,000 gallons	8.6675

**1" Meter**

First 18,000 gallons	\$5.0776
Over 18,000 gallons	8.6675

**1 1/2" Meter**

First 34,000 gallons	\$5.0776
Over 34,000 gallons	8.6675

**2" Meter**

First 53,000 gallons	\$5.0776
Over 53,000 gallons	8.6675

**3" Meter**

First 107,000 gallons	\$5.0776
Over 107,000 gallons	8.6675

**4" Meter**

First 168,000 gallons	\$5.0776
Over 168,000 gallons	8.6675

**6" Meter**

First 340,000 gallons	\$5.0776
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EXHIBIT A  
ANTHEM WATER 2012

Over 340,000 gallons	8.6675
<b>8" Meter</b>	
First 547,000 gallons	\$5.0776
Over 547,000 gallons	8.6675
Interruptible	\$5.6101
Wholesale (Phoenix) OWU	0.5465

**SERVICE LINE AND METER INSTALLATION CHARGE:**

(Refundable Pursuant to A.A.C. R14-2-405)

<u>Meter Size</u>	<u>Service Line</u> <u>Charges</u>	<u>Meter Charges</u>	<u>Total Charges</u>
5/8" x 3/4" Meter	\$370.00	\$130.00	\$500.00
3/4" Meter	370.00	205.00	575.00
1" Meter	420.00	240.00	660.00
1-1/2" Meter	450.00	450.00	900.00
2" Turbine	580.00	945.00	1,525.00
2" Compound	580.00	1,640.00	2,220.00
3" Turbine	745.00	1,420.00	2,165.00
3" Compound	765.00	2,195.00	2,960.00
4" Turbine	1,090.00	2,270.00	3,360.00
4" Compound	1,120.00	3,145.00	4,265.00
6" Turbine	1,610.00	4,425.00	6,035.00
6" Compound	1,630.00	6,120.00	7,750.00
Over 6"	Cost	Cost	Cost

**SERVICE CHARGES:**

Reconnection (During business hours)	\$60.00
Reconnection (After business hours)	90.00
Insufficient Funds, NSF Fee	25.00
Customer Requested Meter Reread (if not in error)	10.00
Meter Test Charge (Less than 3% difference)	30.00

EXHIBIT A  
ANTHEM WATER 2013

**MONTHLY USAGE CHARGE****Residential and Commercial**

5/8" x 3/4" Meter	\$27.08
1" Meter	67.69
1-1/2" Meter	135.38
2" Meter	216.61
3" Meter	433.22
4" Meter	676.90
6" Meter	1,353.80
8" Meter	2,016.09

**Private Fire**

Private Fire 3" Meter	\$10.00
Private Fire 4" Meter	12.50
Private Fire 6" Meter	25.00
Private Fire 8" Meter	40.00
Private Fire 10" Meter	57.50

**COMMODITY CHARGES: (per 1,000 gallons)****Residential (All Meter Sizes)**

First 2,000 gallons	\$1.6246
2,001 to 5,000 gallons	3.2491
5,001 to 9,000 gallons	5.4152
9,001 to 21,000 gallons	7.5813
Over 21,000 gallons	9.2438

**Commercial****5/8 x 3/4" Meter**

First 9,000 gallons	\$5.4152
Over 9,000 gallons	9.2438

**1" Meter**

First 18,000 gallons	\$5.4152
Over 18,000 gallons	9.2438

**1 1/2" Meter**

First 34,000 gallons	\$5.4152
Over 34,000 gallons	9.2438

**2" Meter**

First 53,000 gallons	\$5.4152
Over 53,000 gallons	9.2438

**3" Meter**

First 107,000 gallons	\$5.4152
Over 107,000 gallons	9.2438

**4" Meter**

First 168,000 gallons	\$5.4152
Over 168,000 gallons	9.2438

**6" Meter**

First 340,000 gallons	\$5.4152
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**EXHIBIT A**  
**ANTHEM WATER 2013**

Over 340,000 gallons	9.2438
<b>8" Meter</b>	
First 547,000 gallons	\$5.4152
Over 547,000 gallons	9.2438
Interruptible	\$5.9831
Wholesale (Phoenix) OWU	0.5828

**SERVICE LINE AND METER INSTALLATION CHARGE:**

(Refundable Pursuant to A.A.C. R14-2-405)

<b><u>Meter Size</u></b>	<b><u>Service Line</u></b>	<b><u>Meter Charges</u></b>	<b><u>Total Charges</u></b>
	<b><u>Charges</u></b>		
5/8" x 3/4" Meter	\$370.00	\$130.00	\$500.00
3/4" Meter	370.00	205.00	575.00
1" Meter	420.00	240.00	660.00
1-1/2" Meter	450.00	450.00	900.00
2" Turbine	580.00	945.00	1,525.00
2" Compound	580.00	1,640.00	2,220.00
3" Turbine	745.00	1,420.00	2,165.00
3" Compound	765.00	2,195.00	2,960.00
4" Turbine	1,090.00	2,270.00	3,360.00
4" Compound	1,120.00	3,145.00	4,265.00
6" Turbine	1,610.00	4,425.00	6,035.00
6" Compound	1,630.00	6,120.00	7,750.00
Over 6"	Cost	Cost	Cost

**SERVICE CHARGES:**

Reconnection (During business hours)	\$60.00
Reconnection (After business hours)	90.00
Insufficient Funds, NSF Fee	25.00
Customer Requested Meter Reread (if not in error)	10.00
Meter Test Charge (Less than 3% difference)	30.00

**EXHIBIT A**  
**SUN CITY WATER**

**MONTHLY USAGE CHARGE****Residential and Commercial**

5/8" x 3/4" Low Income	\$ 4.38
5/8" x 3/4" Meter	8.76
1" Meter	21.89
1-1/2" Meter	43.78
2" Meter	70.05
3" Meter	140.10
4" Meter	218.90
6" Meter	437.81
8" Meter	700.50

**Public Interruptible - Peoria**

\$ 8.16

**Irrigation - 2"**

77.59

**Private Fire**

Private Fire 3" Meter	\$ 9.73
Private Fire 4" Meter	9.73
Private Fire 6" Meter	9.73
Private Fire 8" Meter	14.01
Private Fire 10" Meter	20.14
Private Hydrant - Peoria	8.22

**COMMODITY CHARGES: (per 1,000 gallons)****Residential (All Meters)**

First 1,000 gallons	\$0.7297
1,001 to 3,000 gallons	1.0702
3,001 to 9,000 gallons	1.3621
9,001 to 12,000 gallons	1.6539
Over 12,000 gallons	2.0156

**Commercial****5/8 x 3/4" Meter**

First 9,000 gallons	\$1.3621
Over 9,000 gallons	2.0156

**1" Meter**

First 20,000 gallons	\$1.3621
Over 20,000 gallons	2.0156

**1 1/2" Meter**

First 40,000 gallons	\$1.3621
Over 40,000 gallons	2.0156

**2" Meter**

First 64,000 gallons	\$1.3621
Over 64,000 gallons	2.0156

**3" Meter**

First 131,000 gallons	\$1.3621
Over 131,000 gallons	2.0156

**4" Meter**



**EXHIBIT A**  
**SUN CITY WATER**

First 205,000 gallons	\$1.3621
Over 205,000 gallons	2.0156
<b>6" Meter</b>	
First 415,000 gallons	\$1.3621
Over 415,000 gallons	2.0156
<b>8" Meter</b>	
First 670,000 gallons	\$1.3621
Over 670,000 gallons	2.0156
<b>Public Interruptible - Peoria</b>	\$1.1632
<b>Irrigation - 2"</b>	1.2551
<b>Irrigation - Raw</b>	1.0037
<b>Central AZ Project</b>	0.8480
<b>Private Hydrant - Peoria</b>	1.1400

**SERVICE LINE AND METER INSTALLATION CHARGE:**

(Refundable Pursuant to A.A.C. R14-2-405)

<u>Meter Size</u>	<u>Service Line</u> <u>Charges</u>	<u>Meter Charges</u>	<u>Total Charges</u>
5/8" x 3/4" Meter	\$370.00	\$130.00	\$500.00
3/4" Meter	370.00	205.00	575.00
1" Meter	420.00	240.00	660.00
1-1/2" Meter	450.00	450.00	900.00
2" Turbine	580.00	945.00	1,525.00
2" Compound	580.00	1,640.00	2,220.00
3" Turbine	745.00	1,420.00	2,165.00
3" Compound	765.00	2,195.00	2,960.00
4" Turbine	1,090.00	2,270.00	3,360.00
4" Compound	1,120.00	3,145.00	4,265.00
6" Turbine	1,610.00	4,425.00	6,035.00
6" Compound	1,630.00	6,120.00	7,750.00
Over 6"	Cost	Cost	Cost

**SERVICE CHARGES:**

Reconnection (During business hours)	\$30.00
Reconnection (After business hours)	40.00
Insufficient Funds, NSF Fee	25.00
Customer Requested Meter Reread (if not in error)	5.00
Meter Test Charge	10.00

**Groundwater Savings Fee:**

Residential (Per Unit)	\$1.5650
Non-Residential (Per 1,000 gallons)	0.1192

DECISION NO. 72047

EXHIBIT A  
ANTIEM/AGUA FRIA WASTEWATER

**Monthly Usage Charge:**

Residential	\$39.84
Commercial 5/8"	44.48
Commercial 3/4"	66.72
Commercial 1"	89.06
Commercial LG	178.05

**Commodity Charge (Per 1,000 gallons water usage)**

Residential* (First 7,000 gallons only)	\$4.9946
Commercial 5/8" (First 10,000 gallons only)	5.5760
Commercial 3/4" (First 15,000 gallons only)	5.5760
Commercial 1" (First 20,000 gallons only)	5.5760
Commercial LG (All gallons)	5.5760
Wholesale Phoenix (All gallons)	5.5760

**Effluent Charge:**

All gallons (Per Acre-foot)	\$250.00
All gallons (Per 1,000 gallons)	0.77

**Annual Fee for Industrial Discharge Service**

<=50,000 gallons water per month	\$ 500.00
> 50,000 gallons water per month	1,000.00

**Sewer Facilities Hook-Up Fees**

Fee per Equivalent Residential Unit ("ERU")	765.00
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**ERU Schedule:**

Single Family Home	1.00
Apartment Units	0.50
Commercial Units (per acre)	4.00
Resorts (per room)	0.50

**SERVICE CHARGES:**

Establishment during business hours	\$30.00
Establishment after business hours	45.00
Reconnection (delinquent)	40.00
Reconnection after hours	55.00
NSF Check	15.00
Late Fee (Per Month)	1.50%

\* Commencing June 1, 2012, each residential customer's commodity charges will be based on that customer's average water usage for the most recent January, February and March combined average actual water usage for those months, without the current 7,000 gallon cap. The commodity charges will be reset annually based on the most recent January, February and March combined average actual water usage for those months.

EXHIBIT A  
SUN CITY WASTEWATER

**Monthly Usage Charge:****Residential**

Single Unit 5/8" x 3/4"	\$ 18.11
Single Unit 1"	46.86
Single Unit 1-1/2"	93.73
Single Unit =>2"	149.96
Single Unit Non Water	18.11
Multi Unit All Water	18.11
Multi Unit Non Water	18.11

**Commercial**

WC	\$ 5.64
DW	43.03
WM	10.48
WR	21.31
RR	10.94

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Paradise Park I/U	8,711.69
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Single Unit 5/8" x 3/4"	9.20
Single Unit 1"	23.02
Single Unit 1-1/2"	46.02
Single Unit 2"	73.63
Single Unit >2"	73.63
Single Unit Non Water	73.63
Multi Unit 5/8" x 3/4"	9.20
Multi Unit 1"	23.02
Multi Unit 1-1/2"	46.02
Multi Unit 2"	73.63
Multi Unit >2"	73.63
Multi Unit Non Water	73.63
Large User => 2"	73.63

**Commercial Volumetric Charge**

<b><u>(Per 1,000 gallons water usage)</u></b>	\$ 1.2862
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**Paradise Park I/U Volumetric Charge**

<b><u>(Per 1,000 gallons water usage)</u></b>	\$ 1.8770
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**Annual Fee for Industrial Discharge Service**

<=50,000 gallons water per month	\$ 500.00
> 50,000 gallons water per month	1,000.00

**SERVICE CHARGES:**

Reconnection (During business hours)	\$30.00
Reconnection (After business hours)	40.00
Insufficient Funds, NSF Fee	10.00

**EXHIBIT A**  
**SUN CITY WEST WASTEWATER**

**Monthly Usage Charge:****Residential**

Single Unit 5/8" x 3/4"	\$ 30.96
Single Unit 1"	77.40
Single Unit 1-1/2"	154.79
Single Unit =>2"	247.66
S Unit Non Water	30.96
M all Unit	30.96

**Commercial**

WC	\$ 11.65
DW	93.42
WM	21.80
WR	45.67
S Unit 5/8" x 3/4"	17.65
S Unit 1"	44.13
S Unit 1-1/2"	88.27
S Unit 2"	141.23
S Unit >2"	141.23
S Unit Non Water	141.23
M Unit 5/8" x 3/4"	17.65
M Unit 1"	44.13
M Unit 1-1/2"	88.27
M Unit 2"	141.23
S Unit >2"	141.23
S Unit LU =>2"	141.23

**Commercial Volumetric Charge**

**(Per 1,000 gallons water usage)** \$ 2.6024

**Annual Fee for Industrial Discharge Service**

<=50,000 gallons water per month	\$ 500.00
> 50,000 gallons water per month	1,000.00

**SERVICE CHARGES:**

Reconnection (During business hours)	\$30.00
Reconnection (After business hours)	40.00
Insufficient Funds, NSF Fee	25.00

## TYPICAL BILL IMPACTS

### 09-0343

#### ANTHEM WATER:

Under the rates adopted herein, an average usage (9,616 gallons/month) Anthem Water district residential customer on a 5/8 x 3/4-inch meter will experience in 2011 an increase of \$20.91, or approximately 56.2 percent, from \$37.22 per month to \$58.13 per month and in 2012 an additional increase of \$4.14 or approximately 7.1 percent to \$62.27 per month. Rates will additionally increase in 2013 by \$4.14 or approximately 6.7 percent to \$66.41 per month according to the phase in plan.

#### SUN CITY WATER:

Under the rates adopted herein, an average water usage (7,954 gallons per month) Sun city Water district residential customer with a 5/8 x 3/4-inch water meter will experience an increase of \$1.65, or approximately 9.9 percent, from \$16.73 per month to \$18.38 per month.

#### ANTHEM / AGUA FRIA WASTEWATER:

Under the rates adopted herein, an average water usage (5,632 gallons per month) Anthem/Agua Fria Wastewater district residential customer with a 5/8 x 3/4-inch water meter will experience an increase of \$20.61, or approximately 43.5 percent, from \$47.36 per month to \$67.97 per month.

#### SUN CITY WASTEWATER:

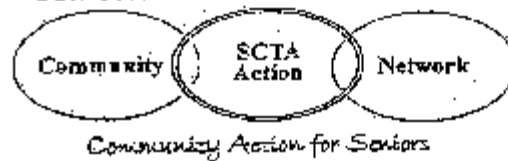
Under the rates adopted herein, an average water usage Sun City Wastewater district residential customer with a 5/8 x 3/4-inch water meter will experience an increase of \$4.42, or approximately 32.3 percent, from \$13.69 per month to \$18.11 per month.

#### SUN CITY WEST WASTEWATER:

Under the rates adopted herein, an average water usage Sun City West Wastewater district residential customer with a 5/8 x 3/4-inch water meter will experience an increase of \$5.95, or approximately 23.8 percent, from \$25.01 per month to \$30.96 per month.



SUN CITY TAXPAYERS ASSOCIATION

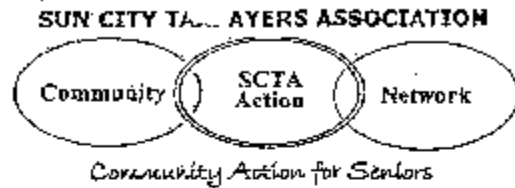


# **Sun City/Youngtown Low Income Assistance Program For Condominium Residents**

Planning Meeting  
SCTA Office  
July 29, 2010

Sun City Taxpayers Association  
10195 W. Coggins Drive  
Sun City, AZ 85351

DECISION NO. 72047



SCTA Board Oversight Chairperson + A pool of eight (8) people will be needed.

Get the word out

- Newspaper stories
- SCTA "tips"
- Flyers to condo residents with help from Condo Association



Dedicated phone line w/answering service



Screen applicants

- Send out information packet w/application
- Set up appointment for SCTA office visit
- Complete benefits check up
- LIAP for AAW



Computer spreadsheet with all pertinent information.



Write check for \$4/month (twice a year)



Verify resident still living there before next check is written



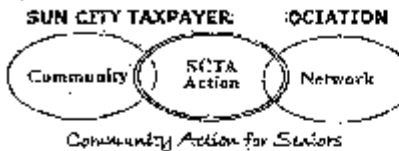
Submit monthly written report to AAW



Meet personally every quarter to review and adjust program



Bill AAW quarterly for misc. expenses (phone, postage, etc.)



# APPLICATION: Sun City/Youngtown Low Income Assistance Program For Condominium Residents

(Program is for residential customers and their domestic water service)

## Section 1—Customer Information

Association Name \_\_\_\_\_ Customer Assoc. Account # \_\_\_\_\_

(Located on Bill)

Mailing Address \_\_\_\_\_

City \_\_\_\_\_ Zip Code \_\_\_\_\_

Management Company \_\_\_\_\_

Individual (Customer) Name \_\_\_\_\_

Home Address \_\_\_\_\_

(Individual Address)

City \_\_\_\_\_ Zip Code \_\_\_\_\_

Daytime Phone # \_\_\_\_\_ Individual Resident  
(Must list # \_\_\_\_\_ Condo Assoc. (Chairperson)  
all three) # \_\_\_\_\_ (Management Company)

## Section 2—Program Eligibility for Condo Owners

### Are you Eligible?

Each applicant for the Low Income Assistance Program must meet all four criteria below to be eligible for the program. Please check all boxes that apply:

- ☐ Full time/permanent Sun City/Youngtown Resident (Drivers license or AZ car license for I.D.)
- ☐ Over 65 years old (one member of family)
- ☐ All Annual income does not exceed \$16,245 for single-person household  
(\$21,855 for two-person household)
- ☐ Receive domestic water service from Arizona American Water

I state the information I have provided in this application is true and correct. I agree to provide proof of income,

X \_\_\_\_\_  
Arizona American Water Customer Signature

\_\_\_\_\_ Date

Mail or deliver to confirming agent:  
Sun City Taxpayers Association  
10195 W. Coggins Drive  
Sun City, AZ 85351

DECISION NO. 72047



## EXHIBIT "C"

## DEPRECIATION RATES FOR WATER SYSTEMS -Anthem Water District

NAROC Acct	Company's Account #.	Depreciable Plant	Decision # 70372	Company's proposed rate (%)	Rate (%)
301	301000	Organization	0	0	0
302	302000	Franchises	0	0	0
303	303200	Land & Ld Rights SS	0	0	0
	303300	Land & Ld Rights P	0	0	0
	303500	Land & Ld Rights TD	0	N/A	0
	303600	Land & Land Rights AG	0	N/A	0
304	304100	Struct & Imp SS	2.50	2.50	2.50
	304200	Struct & Imp P	1.67	1.67	1.67
	304300	Struct & Imp WT	1.67	1.67	1.67
	304400	Struct & Imp TD	1.67	1.67	1.67
	304510	Struct & Imp AG Cap Lease	0	N/A	0
	304600	Struct & Imp Offices	1.67	N/A	1.67
	304620	Struct & Imp Leasehold	1.67	N/A	1.67
	304700	Struct & Imp Store, Shop, Gar	0.00	N/A	0.00
305	305000	Collect & Impounding	1.67	2.50	2.50
306	306000	Lake, River & Other Intakes	2.50	2.50	2.50
307	307000	Wells & Springs	2.52	2.52	2.52
308	308000	Infiltration Galleries & Tunnels	N/A	6.67	2.00 <sup>3</sup>
310	310100	Power Generation Equip Other	N/A	4.42	4.42
311	311200	Pump Equip Electric	4.42	4.42	4.42
	311300	Pump Equip Diesel	N/A	4.42	4.42
	311500	Pump Equip Other	4.42	4.42	4.42
320	320100	WT Equip Non-Media	4.00	7.06 <sup>4</sup>	7.06
	320200	WT Equip Filter Media	N/A	5.00 <sup>4</sup>	5.00
330	330000	Dist Reservoirs & Standpipe	1.67	1.67	1.67
331	331001	TD Mains Not Classified by size	1.53	1.53	1.53
	331100	TD Mains 4-inch & Less	1.53	1.53	1.53
	331200	TD Mains 6-inch to 8-inch	1.53	1.53	1.53
	331300	TD Mains 10-inch to 16-inch	1.53	1.53	1.53
333	333000	Services	2.48	2.48	2.48
334	334100	Meters	2.51	6.67 <sup>4</sup>	6.67
	334200	Meter Installations	2.51	2.51	2.51
	334300	Meter Vaults	N/A	N/A	N/A
335	335000	Hydrants	1.99	N/A	2.00
336	N/A	Backflow Prevention Devices	N/A	N/A	6.67
340	340100	Office Furniture & Equip	4.59	N/A	N/A
	340200	Comp & Periph Equip	4.59	10.00 <sup>4</sup>	10.00
	340300	Computer Software	N/A	25.00 <sup>4</sup>	25.00
	340330	Comp Software Other	N/A	25.00 <sup>4</sup>	25.00

Arizona-American Water Company  
Anthem Water Division

341	341100	Trans Equip Lt Duty Trks	25.00	20.00 <sup>4</sup>	20.00
	341200	Trans Equip Hvy Duty Trks	25.00	15.00 <sup>4</sup>	15.00
	341300	Transportation Equipment - Other <sup>1</sup>	N/A	25.00	20.00
	341400	Trans Equip Other <sup>2</sup>	25.00	16.67	16.67
342	342000	Stores Equipment	0.00	N/A	0.00
343	343000	Tools, Shop, Garage Equip	1.53		
344	344000	Laboratory Equipment	3.71	3.71	3.71
345	345000	Power Operated Equipment	1.53		
346	346100	Comm Equip Non-Telephone	9.76		
	346190	Remote Control & Instrumentation	N/A		
	346200	Comm Equip Telephone	9.76		
	346300	Comm Equip Other	7.91		
347	347000	Misc Equipment	0.00	6.19	6.19

- Notes:
1. Per the Company, this account reflects transportation automobiles.
  2. Per the Company, this account reflects transportation equipment other than trucks, such as trailers and cars, etc.
  3. Per the Company's response to Data Request No. STF 14.8, this account includes source water supply facilities, such as, the CAP pumping station and pipeline from the CAP canal to the Anthem Water Treatment Plant. The depreciation rate is consistent with that of Account Nos. 331400 and 30900 used in the Sun City Water District.
  4. Approved in Decision No. 71410.

## DEPRECIATION RATES FOR SUN CITY WATER DISTRICT

NARUC Acct #	Company's Account #.	Depreciable Plant	Decision # 70351	Rate (%) Sun City Water proposed	Rate (%)
301	301000	Organization	0	0	0
302	302000	Franchises	0	0	0
303		Land & Land Rights	0		0
	303200	Land & Land Rights SS	0	0	0
	303300	Land & Land Rights P	0	0	0
	303500	Land & Land Right TD	0	0	0
	303600	Land & Land Right AG	0	0	0
304		Structures & Improvements			
	304100	Structure & Improvement SS	2.50	2.50	2.50
	304200	Structure & Improvement P	1.67	1.67	1.67
	304300	Structures and Improvements WT	1.67	1.67	1.67
	304400	Structure & Improvement TD	2.00	2.00	2.00
	304500	Structure & Improvement AG	N/A	3.99 <sup>1,2</sup>	3.99
	304600	Structure & Improvement office	4.63	4.63	4.63
	304620	Structure & Improvement Leasehold	N/A	N/A	0
	304800	Structure & Improvement Misc	1.67	1.67	1.67
305	305000	Collection & Impounding reservoirs	2.50	2.50	2.50
307	307000	Wells & Springs	2.52	2.52	2.52
309	309000	Supply Mains	N/A	2.00	2.00
310	310000	Power Generation Equip	4.42	4.42	4.42
	310100	Power Generation Equip Other	N/A	4.42	4.42
311		Pumping Equipment			
	311200	Pump Equipment Electric	4.42	4.42	4.42
	311300	Pump Equipment Diesel	5.00	5.00	5.00
	311400	Pump Equipment Hydraulic	N/A	4.42	4.42
	311500	Pump Equipment Other - pump parts <sup>1</sup>	5.01	5.01	5.01
320		Water Treatment			
	320100	Water Treatment Equipment Non-Media	4.00	7.06 <sup>2</sup>	7.06
330		Distribution Reservoirs & Standpipes			
	330000	Distribution Reservoirs & Standpipes	1.67	1.67	1.67
331		Transmission and Distribution			
	331001	TD mains not classified by size	1.53	1.53	1.53
	331100	TD mains 4-inch & less	1.53	1.53	1.53
	331200	TD mains 6-inch to 8-inch	1.53	1.53	1.53
	331300	TD mains 10-inch to 16-inch	1.53	1.53	1.53
	331400	TD mains 18-inch & Grtr	N/A	2.00 <sup>2</sup>	2.00
333	333000	Services	2.48	2.48	2.48
334		Meters			
	334100	Meters	2.51	6.67 <sup>2</sup>	6.67 <sup>5</sup>
	334200	Meter installations	2.51	2.51	2.51
335	335000	Hydrants	2.00	2.00	2.00
336	N/A	Backflow Prevention Devices	6.67	N/A	6.67
339		Other Plant & Misc Equipment			
	339100	Other P/E Intangible	0	0	0
	339500	Other P/E TD <sup>3</sup>	2.00	20.00	0.00 <sup>3</sup>

340	340100	Office Furniture & Equipments	4.59	4.59	4.59
	340200	Computer & periph equipment	4.59	10.00 <sup>2</sup>	10.00
	340300	Computer Software	N/A	25.00 <sup>3</sup>	25.00
	340310	Computer Software	N/A	25.00 <sup>3</sup>	25.00
	340325	Computer Software Custom	N/A	25.00 <sup>3</sup>	25.00
	340330	Computer Software other	N/A	25.00 <sup>3</sup>	25.00
	340500	Other Office Equip - ice/water machine <sup>1</sup>	N/A	7.13 <sup>1</sup>	7.13
341		Transportation Equipment			
	341100	Transportation Equip, Lt Duty Trucks	25.00	20.00 <sup>2</sup>	20.00
	341200	Transportation Equip, heavy Duty Trucks	25.00	15.00 <sup>2</sup>	15.00
	341400	Trans Equip - Other - trailer for flatbed backhoe	N/A	16.67	16.67
342	342000	Store Equipments	3.91	3.91	3.91
343	343000	Tools Shop & Garage Equipments	4.02	4.02	4.02
344	344000	Lab equipments	3.71	3.71	3.71
345	345000	Power operated equipments	5.20	5.20	5.20
346		Communication Equipments			
	346100	Communication Equip non-telephone	10.30	10.30	10.30
	346190	Remote Control & Instrument	10.30	10.30	10.30
	346200	Communication Equip - Telephone	10.30	10.30	10.30
	346300	Communication Equip Other	4.93	4.93	4.93
347	347000	Misc Equipment	0.0	6.19 <sup>4</sup>	6.19

## Notes:

1. Per the District's response to Data Request STF 14.1-14.7.
2. Referred to Decision #71410.
3. This account is for easement/right of way, the depreciation rate should be 0%.
4. According to the District, this account only includes an eye wash drench for Well #5.1 that was in service in May 2009.
5. Per the District's February 18 and 19 e-mails, the Company had begun its 15-year automatic meter replacement program in 2009. The depreciation rate for meter should be 6.67%.

## DEPRECIATION RATES FOR ANTHEM/AGUA FRIA WASTEWATER DISTRICT

NARUC Acct #	Co.'s Account	Description	Decision # 70372	Co's proposed rate (%)	Depreciation Rate (%)
304	304100 <sup>1</sup>	Struct & Imp SS	2.50%	0	
304	304200 <sup>1</sup>	Struct & Imp P	N/A	0	0
304	304510 <sup>1</sup>	Struct & Imp AG Cap Lease	N/A	0	0
304	304600 <sup>1</sup>	Struct & Imp Offices	N/A	0	0
304	304820 <sup>1</sup>	Struct & Imp Leasehold	N/A	0	0
304	304800 <sup>1</sup>	Struct & Imp Misc	N/A	0	0
307	307000 <sup>1</sup>	Wells & Springs	N/A	0	0
340	340100 <sup>1</sup>	Office Furniture & Equip	N/A	0	0
340	340200 <sup>1</sup>	Comp & Periph Equip	0%	10.00	10.00
340	340300 <sup>1</sup>	Computer Software	N/A	0	0
340	340330 <sup>1</sup>	Comp Software Other	N/A	0	0
340	340500 <sup>1</sup>	Other Office Equipment	N/A	0	0
341	341100 <sup>1</sup>	Trans Equip Lt Duty Trucks	N/A	20.00	20.00
341	341200 <sup>1</sup>	Trans Equip Hvy Duty Trks	25.00%	15.00	15.00
341	341400 <sup>1</sup>	Trans Equip Other <sup>2</sup>	25.00%	15.67	15.67
343	343000 <sup>1</sup>	Tools, Shop, Garage Equip	4.47%	4.47	
344	344000 <sup>1</sup>	Lab Equipment	N/A	0	0
346	346100 <sup>1</sup>	Comm Equip Non-Telephone	N/A	0	0
346	346200 <sup>1</sup>	Comm Equip Telephone	N/A	0	0
346	346300 <sup>1</sup>	Comm Equip Other	N/A	0	0
347	347000 <sup>1</sup>	Misc Equipment	N/A	0	0
352	352000	WW Franchises	0.00%	0	0
353	353200	WW Land & Ld Rights Coll	0.00%	0	0
353	353500	WW Land & Ld Rights Gen	0.00%	0	0
354	354200	WW Struct & Imp Coll	2.50%	1.67	
354	354300	WW Struct & Imp SPP	N/A	0	0
354	354400	WW Struct & Imp TDP	0.00%	1.67	1.67
354	354500	WW Struct & Imp Gen	1.67%	1.68	1.67
355	355300	WW power gen equip RWTP	N/A	5.00	
		WW Collection Sewers		2.07	
360	360000	Forced	2.04%		
361	361100	WW Collecting Mains	2.04%	2.04	2.04
362	362000	WW Special Coll Struct	8.40%	2.04	2.04
363	363000	WW Services Sewer	2.04%	2.04	2.04
364	364000	WW Flow Measuring Devices	5.42%	10.00	
370	370000	WW Receiving Wells	5.42%	5.00	
371	371100	WW Pump Equip Elect	5.42%	5.42	
371	371200	WW Pump Equip Oth Power	5.42%	5.42	
380	380000	WW TD Equipment	5.00%	5.00	5.00
380	380050	WW TD Equip Grit Removal	5.00%	5.00	5.00

380	380100	WW Equip Sed Tanks/Acc	5.00%	5.90	5.00
380	380200	WW TD Equip Sludge/ECS RMV	N/A	5.90	5.00
380	380250	WW TD Equip Sludge Dig Tank	5.00%	5.00	5.00
380	380300	WW TD Equip Sludge Dry/Filt	5.00%	5.00	5.00
380	380400	WW TD Equip Aux Effl Trmt	N/A	5.00	5.00
380	380500	WW TD Equip Chem Trmt Plt	5.00%	5.00	5.00
380	380600	WW TD Equip Oth Disp	5.00%	5.00	5.00
380	380625	WW TD Gen Trmt	N/A	8.40	5.00
370	380650	WW TD Equip Influent Lift Station	N/A	8.40	5.00
381	381000	WW Plant Sewers	N/A	5.00	5.00
382	382000	WW Outfall Sewer Line	N/A	5.00	5.00
389	389100	WW Oth Plt & Misc Equip Int	0.00%	4.98	4.98
390	390000	WW Office Furniture & Equip	4.59%	4.59	4.59
391	391000	WW Trans Equipment	N/A	20.00	20.00
392	392000	WW Stores Equipment	N/A	3.96	3.96
393	393000	WW Tool Shop & Garage Equip	4.47%	4.47	4.47
394	394000	WW Laboratory Equipment	3.71%	3.71	3.71
395	395000	WW Power Operated Equip	5.88%	5.02	5.02
396	396000	WW Communication Equip	10.30%	10.30	10.30
397	397000	WW Misc Equipment	N/A	5.10	5.10
398	398000	WW Other Tangible Plant	0.00%	0.00	0.00

- Notes: 1. Per Company's response to Data Request No. STF 14.12 & 14.13, the account reflects allocation of Arizona Corporate plant.
2. Per Company, the account reflects any transportation equipments that are not light truck or heavy truck; it could be trailer, mules, etc.

## DEPRECIATION RATES FOR SUN CITY WASTEWATER DISTRICT

NARUC Acct #	Company's Acct #	Depreciable Plant	Decision #70209	Rate (%) Sun City Sewer District proposed	Rate (%)
364	304510 <sup>1</sup>	Struct & Imp AG Cap Lease	N/A	0	0
	304600 <sup>1</sup>	Struct & Imp Office	N/A	0	0
	304620 <sup>1</sup>	Struct & Imp Leaseholds	N/A	0	0
340	340100 <sup>1</sup>	Office Furniture & Equip	N/A	0	0
	340200 <sup>1</sup>	Computer & periph equip	N/A	0	0
	340300 <sup>1</sup>	Computer software	N/A	0	0
	340330 <sup>1</sup>	Computer software & other	N/A	0	0
341	341100 <sup>1</sup>	Trans equip lt duty trucks	N/A	0	0
343	343000 <sup>1</sup>	Tools, shop, garage equip	N/A	0	0
346	346100 <sup>1</sup>	Comm equip non-telephone	N/A	0	0
	346300 <sup>1</sup>	Comm. Equip other	N/A	0	0
347	347000 <sup>1</sup>	Misc equip	N/A	0	0
351	351000	Wastewater ("WW") Organization	0	0	0
352	352000	WW Franchise	0	0	0
353	353200	WW Collection: Land & Land Rights	0	0	0
354	354300	WW Structures and Improvements: collection	2.50	2.50	2.50
	354500	WW Structures and Improvements general	2.00	2.00	2.00
355	355400	WW Power Generation Equipment	3.33	3.33	3.33
360	360000	WW Force Mains	2.07	2.07	2.07
361	361100	WW collection Mains	2.03	2.03	2.03
362	362000	WW special collection structures	8.40	8.40	8.40
363	363000	WW sewer service connections	2.04	2.04	2.04
364	364000	Flow Measuring Devices	10.00	10.00	10.00
365	N/A	Flow Measuring Installations	5.00	N/A	5.00
370	N/A	WW Receiving Wells	N/A	N/A	3.33
371	371100	WW pump equipment: electric	5.42	5.42	5.42
380	380050	Treatment & Disposal Equipment: Grit Removal	2.00	2.00	2.00
	380100	WW Treatment & Disposal Equipment: Sedimentation tanks/ACC		2.00	2.00
	380600	WW Treatment & Disposal Equipment other disposal		2.00	2.00
	380625	WW Treatment & Disposal Equip general treatment		2.00	2.00
	380650	WW Treatment & Disposal Equipment Influent lift station	2.00	2.00	2.00
382	382000	WW Outfall Sewer Line	2.00	2.00	2.00
389	389100	WW Other Plant & Misc Equipment Int	4.98	4.98	4.98
	389600	WW oth Plt & Misc Equip	N/A	4.98	4.98
390	390000	WW Office Furniture & Equipments	4.59	4.59	4.59
390.1	N/A	WW Computer Equipments	4.55	N/A	4.55
391	391000	WW transportation equipment	25.00	20.00	20.00
393	393000	Wastewater Tools, Shop, Garage Equipment	4.47	4.47	4.47
394	394000	Lab equipments	3.71	N/A	0.00
395	N/A	Power Operated Equipment	5.14	N/A	0.00
396	396000	WW Communication Equipment	10.28	10.28	10.28
397	397000	WW Misc Equipment	5.10	5.10	5.10
398	398000	WW other tangible plant	10.30	0.00	0.00

Notes: 1. Per the Company response to Data Request No. STF 14.12 these accounts contain plant allocated to corporate use.

Figure 6 Depreciation Rates for Sun City West Wastewater

NARUC Acct #	Company's Acct #	Depreciable Plant	Decision # 70209	Rate (%) Sun City West Sewer District proposed	Staff Recommended Rate (%)
304	304100	Structure & Imp SS	2.50 <sup>1</sup>	2.50	2.50
304	304200	Structure & Imp P	1.67 <sup>2</sup>	1.67	1.67
304	304510	Structure & Imp AG & Cap lease	N/A <sup>2</sup>	0	0
304	304600	Structure & Imp Office	4.63 <sup>2</sup>	1.67	1.67
304	304620	Structure & Imp leasehold	1.67	4.63	4.63
304	304800	Structure & Improvement Misc	0 <sup>2</sup>	4.63	1.67
307	307000	Wells & Springs	2.52 <sup>2</sup>	2.52	2.52
340	340100	Office Furniture & Equip	4.59 <sup>2</sup>	4.04	4.04
340	340200	Comp & Periph Equip	10 <sup>2</sup>	10	10
340	340300	Computer Software	0 <sup>2</sup>	25.00	25.00
340	340330	Computer Software Other	0 <sup>2</sup>	25.00	25.00
340	340500	Other Office Equip	0 <sup>2</sup>	0	0
341	341100	Transportation Equip - light duty trucks	25.00 <sup>2</sup>	20.00	20.00
343	343000	Tools, shop and garage	4.02 <sup>2</sup>	4.47	4.47
344	344000	Lab equip	3.71 <sup>1</sup>	0	0
346	346100	Comm. Equip - non-telephone	10.30 <sup>2</sup>	0	0
346	346300	Comm. Equip other	4.93 <sup>2</sup>	0	0
347	347000	Misc equipment	N/A <sup>1</sup>	0	0
351	351000	Wastewater ("WW") Organization	0	0	0
352	352000	WW Franchise	0	0	0
353	353200	WW Collection: Land & Land Rights	0	0	0
	353500	WW general: Land & Land Rights	0	0	0
354	354200	WW Collection: Structures and Improvements	5.00	5.00	5.00
	354300	WW Structures and Improvements: System Pump Plant	5.00	5.00	5.00
	354400	WW Structures and Improvements: TDP	N/A	N/A	0
	354500	WW Collection: Structures and Improvements general	1.67	1.67	1.67
355	355200	WW Power Generation Equipment - Collection	3.33	N/A	0.00
	355300	WW Power Generation Equipment - SPP	N/A	3.33	3.33
360	360000	WW Force Mains	2.07	2.07	2.07
361	361100	WW collection Mains	2.04	2.04	2.04
362	362000	WW special collection structures	8.40	8.40	8.40
363	363000	WW sewer service connections	2.04	2.04	2.04
364	364000	Flow Measuring Devices	10.00	N/A	10.00
365	N/A	Flow Measuring Installations	5.00	N/A	5.00
370	370000	WW Receiving Wells	N/A	N/A	3.33
	380650	WW Treatment & Disposal Equipment: Influent lift station	5.00	5.00	5.00
371	371100	WW pump equipment: electric	5.42	10.00	10.00
375	380400	WW Treatment & Disposal Equipment: Aux Effluent Treatment	5.00	5.00	5.00
380	380000	Treatment & Disposal Equipment	5.00	5.00	5.00
	380050	Treatment & Disposal Equipment: Grit Removal		5.00	5.00
	380100	WW Treatment & Disposal Equipment: Sedimentation tanks/ACC		5.00	5.00
	380200	Treatment & Disposal Equipment: Sludge/Effluent removal		5.00	5.00
	380250	Treatment & Disposal Equipment: Sludge digester tank		5.00	5.00



## Sun City West Wastewater

	380300	Treatment & Disposal Equipment: sludge dry/filter		5.00	5.00
	380350	Treatment & Disposal Equipment: sec trmt filt		5.00	5.00
	380400	WW Treatment & Disposal Equipment Aux Effluent Treatment		5.00	5.00
	380500	Treatment & Disposal Equipment: chemical treatment plant		5.00	5.00
	380600	WW Treatment & Disposal Equipment - other disp		5.00	5.00
	380625	WW TD Equip - Gen Trmt		5.00	5.00
381	381000	WW Plant Sewers	N/A	N/A	5.00
382	382000	WW Outfall Line	5.00	5.00	5.00
389	389100	WW Other Plant & Misc Equipment Int	4.98	6.67	4.98
390	390000	WW Office Furniture & Equipments	4.59	4.59	4.59
	390100	WW Computer Equip	N/A	10.00	10.00
390.1	N/A	Computer Equipments	4.55	N/A	4.55
391	391000	WW transportation equipment	25.00	20.00	20.00
392	392000	WW stores equipment	3.91	3.91	3.91
393	393000	Wastewater Tools, Shop, Garage Equipment	4.47	4.47	4.47
394	394000	Lab equipments	3.71	10.00	10.00
395	395000	Power Operated Equipment	5.02	5.02	5.02
396	396000	Communication Equipment	10.30	10.30	10.30
397	397000	WW Misc Equipment	5.10	5.10	5.10
398	398000	WW other Tangible Plant	N/A	N/A	0.00

Notes: 1. Per the Company response to Data Request No. STF 14.12 these accounts contain plant allocated to corporate use.  
 2. Rates are approved for the Arizona American Water Company Sun City West Water District in Decision #70209.